Coventry City Council

Public report
Cabinet

Cabinet	23rd February 2021
Council	23rd February 2021

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director Approving Submission of the report:
Director of Finance

Ward(s) affected:
All

Title:
Budget Report 2021/22

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2021/22, the Capital Programme for 2021/22 to 2025/26 and the Council's Capital, Treasury Management and Commercial Investment Strategies.

Executive Summary:
This report follows on from the Pre-Budget Report approved by Cabinet on 15th December 2020 which has since been subject to a period of public consultation. The proposals within this report will now form the basis of the Council's final revenue and capital budget for 2021/22 incorporating the following details:

- Gross budgeted spend of £774m (£30m increase from 2020/21).
- Net budgeted spend of £244m (£5m and 2% higher than 2020/21) funded from Council Tax and Business Rates less a tariff payment of £19.8m due to Government.
- A Council Tax Requirement of £146.3m (£4.9m and 3% higher than 2020/21), reflecting a City Council Tax increase of 4.9% detailed in the separate Council Tax Setting report on today's agenda.
- A number of new expenditure pressures and technical savings proposals.
- A Capital Strategy including a Capital Programme of £220.4m including expenditure funded by Prudential Borrowing of £32.2m.
- The Council's Medium Term Financial Strategy and an updated Treasury Management Strategy, Capital Strategy and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2021/22 Local Government Finance Settlement. The core funding position broadly matches that of 2020/21 although there are several new one-off funding streams, linked in the main to the effects of COVID-19. This position after 2021/22 remains uncertain and will be subject to the Government's medium-term spending decisions and decisions about any revised local government financial allocation model and a new Business Rates retention model. As a result it is impossible to provide a robust financial forecast at this stage and the Council has included some prudent planning figures. Initial assumptions indicate the likelihood that there will be a substantial gap for the period following

2021/22. The view of the Director of Finance is that the Council should be planning for such a position.

The Pre-Budget Report was based on an increase in Council Tax of 4.9% and this position has been maintained for the final proposals in this report. This incorporates an increase of 1.9%, which is within the Government's limit of 2% above which a referendum would need to be held plus a further 3% Adult Social Care (ASC) Precept line with Government expectations. The Precept was trailed in the 2020 Spending Review and included in the Local Government Settlement as the means for councils to maintain their "core spending power". Pending the delayed ASC Green Paper – the policy document which it is hoped will set out future funding arrangements for ASC – the precept is essential to enable councils including Coventry to manage increases in the costs of care. In total, the rise in Council Tax bills will be the equivalent of around £1.25 or less a week for a typical Coventry household.

The Local Government Finance Settlement was announced as having broadly maintained local government funding, supplemented with new grant funding to compensate councils for the effects of the Covid pandemic. In reality, the Council's Budget position includes forecast costs and income loss from Covid for which it will not receive total compensation. Overall, the Council has been left needing to address a significant financial gap which has been balanced by additional Council Tax resources, lower costs in contingency budgets and a proposed contribution from reserve balances. All these proposals are set out in detail in Appendix 1. Where these are different to the proposals that were included in the Pre-Budget Report, this has been indicated within the appendix.

The proposals do not provide the Council with a balanced medium term position beyond 2021/22. The Council's current medium term bottom line incorporates a combination of future inflationary and service pressures, uncertain specific grant resources and potential Government resource reductions. Some of the future funding assumptions are speculative at this stage and will be revised through 2021 as any changes to local government finance and as the longer term impacts of Covid become clearer. The initial approach will however be dictated by a need to make significant further efficiencies from, or generate further income within, Council services. The Council's development of a 'One Coventry' transformation programme is currently being refined and is planned will become a key part of work programmes to feed into Budget proposals for 2022/23.

Whatever the future holds for national changes local government finance the Council remains committed to strengthening its own financial self-sustainability and the need to support the vibrancy and growth of the city. Over the coming year the Council will invest in both new and existing schemes and support its existing financial interests, including those that have been affected detrimentally by Covid. The Council's view is that this continues to be the correct approach. A more passive strategy would risk the Council being further exposed to central government funding decisions and losing value within its portfolio of external interests. The Council's existing financial resilience and its belief in the city's long-term economic strength mean that this remains an ideal time to commit to Coventry's reset and recovery.

The recommended Capital Programme proposals are a key part of the Council's approach and amount to £220.4m in 2021/22. The proposals reflect the Council's ambitions for the city and include: the latter stages of extensive public realm works in the city centre; extensive highways infrastructure works including specific schemes relating to air quality, Pinchpoint and the Eastern Green Housing Infrastrucutre Fund (HIF); final stages of the redevelopment of Coventry Railway Station (the Station Masterplan); the initial construction phase of a second office building within the Friargate district of the city; the initial construction phase also of the Council's Materials Recycling Facility and continuation of the A46 link road to the south of the city. Over the next 5 years the Capital Programme is estimated to be £480m as part of on-going massive investment delivered by and through the City Council.

The annual Treasury Management Strategy, incorporating the Minimum Revenue Provision policy, and also the Commercial Investment Strategy are set out. These cover the management of the Council's treasury and wider commercial investments, cash balances and borrowing requirements. These strategies and other relevant sections of this report reflect the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code and Prudential Code for Capital Finance, as well as statutory guidance on Minimum Revenue Provision (MRP) and Investments. The Council's Medium Term Financial Strategy, considered previously by the Council's Finance and Corporate Services Scrutiny Board and consistent with the proposals in this report is also included for approval as an Appendix to the report.

Recommendations:

That Cabinet recommend to Council the approval of recommendations (1) to (6).

Council is recommended to:

(1) Approve the Budget proposals in **Appendix 1**.

(2) Approve the total 2021/22 revenue budget of **£774m** in **Table 1** and **Appendix 3,** established in line with a 4.9% City Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

(3) Note the Director of Finance's comments confirming the adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(4) Establish an Innovation and Development Fund as set out in section **5.1.2** with decisions on the Fund delegated to Strategic Management Board following consultation with the Leader, Deputy Leader and Cabinet Member for Strategic Finance and Resources.

(5) Approve the Capital Strategy incorporating the Capital Programme of £220.4m for 2021/22 and the commitments arising from this programme totalling £479.6m between 2021/22 to 2025/26 detailed in **Section 2.3** and **Appendix 4** (that element represented by reports on the same agenda in relation The Albany Theatre and the Collections Centre is subject to approval of these reports).

(6) Approve the Council's Treasury Management Strategy and Minimum Revenue Provision Statement for 2021/22 in **Section 2.4** and the Prudential Indicators and limits described and detailed in **Appendix 6a**, the Commercial Investment Strategy for 2021/22 in **Section 2.5** and **Appendix 5,** the Commercial Investment Indicators detailed in **Appendix 6b** and the Medium Term Financial Strategy in **Appendix 7**.

List of Appendices included:

Appendix Number	Title
1	Budget Financial Proposals – Changes to Base Position
2	Consultation Responses
3	Summary Revenue Budget
4	Capital Programme 2021/22 to 2025/26
5	Commercial Investment Strategy
6A&B	Prudential and Investment Indicators
7	Medium Term Financial Strategy

Background papers:

None

Other useful documents:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 23rd February 2021

Title: **Budget Report 2021/22**

1. Context (or background)

1.1 This report seeks approval for the 2021/22 Revenue Budget and corresponding Council Tax rise, Capital Programme and Strategy, Treasury Management Strategy, Commercial Investment Strategy and associated investment and prudential indicators and the Medium Term Financial Strategy. The report includes detail of the resources retained as part of the 2021/22 Government funding allocation and forecasts of the Council's medium term revenue financial position. The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 15th December 2020. They have been established in line with the Council's current Council Plan and the Medium Term Financial Strategy appended to this report.

1.2 The Government announced the Final Local Government Finance Settlement for 2021/22 on 10th February 2021. The settlement provides a core funding level that is consistent with 2020/21. This represents an improvement compared with the Council's financial estimates at the start of the Budget process which assumed funding reductions going forward. No firm picture has been given for the period starting in 2022/23 and the Council's existing planning estimates have some future reductions built in. It is too early to say whether any further clarity will be brought to local government funding arrangements through this year but the Council will seek to refresh its assumptions based on updated information as it emerges. In addition to the core funding element, one-off grant funding has been provided largely to cover Covid related losses. These are detailed as part of the overall budget changes.

1.3 There had been indications previously that the period of year on year local government funding reductions has come to an end. However, the unprecedented impact of the Covid pandemic over the past year and damage that it has done to the nation's financial position means that any financial estimates on the future local government funding environment can only be speculative. However, resources losses suffered by the Council since 2010 mean that it is starting from a much lower financial base than it used to, at a time when demographic and demand led pressures have grown across a range of services. This means that the Council will continue to need to identify efficient ways of working and more commercial, digital and streamlined approaches to service delivery.

1.4 At the conclusion of the 2020/21 Budget process the Council was projecting a 2021/22 budget deficit of £19m. This position was made worse by forecast financial pressures for the year ahead, in particular those caused by legacy impacts of the Covid pandemic. Following the Spending Review announcement in November the Council was able to incorporate improved expectations of core Government funding levels and social care funding streams. Although these improved the financial position greatly, the Pre-Budget Report still included a financial gap of £6m despite the incorporation of new largely technical savings proposals, reserve contributions of £9m and the maximum increases permissible for Council Tax and the Adult Social Care precept. The subsequent Local Government Finance Settlement's inclusion of additional resources to cover Covid related losses plus a small number of other changes have allowed a balanced position to be achieved with a much smaller contribution from Council reserves.

1.5 For 2020/21 councils nationally had the flexibility to increase Council Tax by up to 2% without holding a local referendum on the matter with further ASC precept flexibility of 2%. For 2021/22 the Council Tax referendum limit has been maintained at 2% and the ASC precept limit raised to 3%. The Pre-Budget Report was approved on the basis of a Council Tax rise of 4.9% - within the parameters of these flexibilities - and the budget being proposed in this report maintains this position

1.6 The Council and city is in the midst of a period of large and sustained programme of infrastructure and other capital investment works. The next phases of this are set out in the Capital Programme in section 2.3 and Appendix 4. A large part of the Programme reflects the Council's success in attracting external grant funding into the city, working with the West Midlands Combined Authority to secure resources as part of the Devolution Deal and developing local self-financing projects within the city. The scale and breadth of this programme continue to be very large in a historical context. Council has been informed previously of the significant challenge in managing the number and size of complex and overlapping projects within a relatively compact city and tight timescale although for the most part the Council's capital projects have maintained good momentum. In terms of the wider Capital Programme it is worth emphasising that the vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget.

1.7 The overall Council Capital Programme is estimated to be c£479.8 over the next 5 years. The city's aspiration continues to be to spearhead growth, economic development and job creation in the city and greater self-sufficiency for the City Council through the generation of higher tax revenues and wider economic prosperity and lower deprivation levels amongst citizens. The national economic and political context, including the stucture of any future Business Rates Retention model, will play a factor in the degree to which this can be achieved over this period but the Council will continue to explore a range of options that increase the degree of control that it has over its own financial destiny.

1.8 Whilst local authorities have been required to have a treasury management strategy, more recent statutory government guidance has extended these requirements to other commercial investments, including service loans, shares and investment properties. The guidance seeks to ensure that authorities have strong commercial risk management arrangements and that such investments are proportionate, relative to the size and financial capacity of the authority. The Council's arrangements in this regard are set out in the Capital Strategy, Commercial Investment Strategy and associated investment and prudential indicators referred to above.

1.9 The Covid pandemic and its fall-out was largely responsible for the Council delaying the production of its Medium Term Financial Strategy although this was eventually considered by the Council's Finance and Corporate Services Scrutiny Board on 14th December and is appended to this report for approval.

1.10 Revenue Resources

1.10.1 The Council's total revenue expenditure is funded from a combination of resources as set out in the table below:

Table 1: Funding of Revenue Budget

2020/21 £000s		2021/22 £000s	Change from 20/21 £000s	Change from 20/21 %
(141,381)	**A: Council Tax Requirement**	**(146,276)**	**(4,895)**	**3%**
(117,323)	**B: Business Rates Income**	**(117,377)**	**(54)**	**0%**
19,938	**C: Tariff**	**19,841**	**(97)**	**0%**
(404,582)	**D: Specific Grants (see section**	**(435,447)**	**(30,865)**	**8%**

	3.4)			
(100,934)	**E: All Other Income**	**(94,977)**	**5,957**	**(6%)**
(238,766)	**Funding of Net Budget (A + B + C)**	**(243,812)**	**(5,046)**	**2%**
(744,282)	**Funding of Gross Budget (A + B + C + D + E)****	**(774,236)**	**(29,954)**	**4%**

Line A above reflects the city Council Tax increase of 4.9% and a reduced tax-base due to a lower expected collection performance and higher assumed level of discounts and allowances. In addition to other Fees and Charges, line E includes Council Tax and Business Rates Collection Fund surpluses/deficits, dividend payments and contributions from reserves.

1.10.2 No information is available currently about the level of resoures that will be available to the Council in future. This will be subject to decisions over the Government's spending plans and any changes in the Local Government Finance model which the Government is continuing to assess. The Council's medium term financial forecast reflected in Appendix 1 assumes some modest reductions in resources in future years although this cannot be used as a reliable indication at this stage.

1.10.3 The Council is in a similar position to many councils having experienced significant reductions in the resources it received from Government since 2010. In efforts to maximise the benefit realisable within the current system Coventry is currently a member both of the Coventry and Warwickshire Business Rates Pool and the West Midlands Business Rates Pilot, the latter of which enables the Council to retain 99% of Business Rates. Both these mechanism have enabled the Council to improve its overall resource position by a modest degree over recent years.

1.10.4 As a result of lower resource settlements from Government and 99% Business Rates retention the Council needs to make a tariff payment <u>to</u> Government in contrast to the top-up payment that it used to receive <u>from</u> Government under previous funding arrangements. This tariff payment now stands at £19.8m for 2021/22, broadly in line with the previous year. This indicates that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates (plus specific grants) than it requires for its assessed spending needs. This position reflects a combination of cuts to Government funding for local government and to a limited degree, indications that the Council has a degree of self-reliance (in relative terms compared to other areas) and is able to fund its own spending requirements. It is important to treat this assessment with caution given that the city continues to have some high levels of need and areas of deprivation. Nevertheless, it emphasises the importance for the Council of generating greater resilience and prosperity in the local economy in order for the city to be able to support itself under the Government's intention for local government to become more self-sufficient.

1.10.5 In overall terms budgeted specific revenue grant funding is increasing between 2020/21 and 2021/22 from £405m to £435m. This reflects a higher level of Dedicated Schools Grant (£170m up from £158m in 2020/21), Covid emergency funding of £11m (none of which was budgeted in 2020/21) and Covid Local Council Tax Support funding of £4m (again, none of which was budgeted in 2020/21). Other significant grants include Housing Benefit Subsidy (£114m), adult social care funding (£42m), Public Health (£22m), grants relating to Business Rates (£14m), Private Finance Initiatives (£9m), Pupil Premium (£9m), Adult Education funding (£6m) and the New Homes Bonus (£5m).

1.10.6 The Council's capital and revenue programmes, including treasury and commercial activities, are managed in parallel through consolidated planning, in year monitoring and year end processes, within the context of the Medium Term Financial Strategy. The Constitution, including the Financial Procedure Rules, set out thresholds that determine the level at which financial approval is required by officers or the appropriate member forum, up to Council. Central to the approach is the the principal that recommendations are supported by appropriate business cases.

2. Options considered and recommended proposal

2.1 Section Outline

2.1.1 This section details the specific proposals recommended for approval within the revenue budget. Section 2.2 below outlines the changes that have occurred to the financial proposals since the Pre-Budget Report in December. The full list of final proposals is provided in **Appendix 1.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 3**. These are based on a City Council Tax rise of 4.9% which includes an Adult Social Care Precept of 3%.

2.1.2 The report seeks approval for a 2021/22 Capital Programme of £220.4m compared with the initial 2020/21 programme of £232.7m. The Programme is considered in detail in **Section 2.3** and **Appendix 4**.

2.1.3 The report is also required formally to seek Council approval for the Treasury Management Strategy (**Section 2.4),** the Commercial Investment Strategy **(Appendix 5),** the Prudential and Investment Indicators (**Appendix 6a and 6b**) and the Medium Term Financial Strategy (**Appendix 7**).

2.2 Revenue Budget

2.2.1 The budget includes the saving and expenditure proposals included within the Pre-Budget Report approved by Cabinet on 15th December 2020 as a basis for Pre-Budget consultation. A line-by-line impact of how these proposals affect the base budget is given in **Appendix 1** with an indication of where there have been changes to the figures included within the Pre-Budget Report. The summary and detailed changes since the Pre-Budget Report are shown in tables 2 and 3 below. These changes enable the Council to deliver a balanced budget for 2021/22 but indicate that a financial gap will arise based on known current conditions for subsequent years.

Table 2: Summary Changes to Pre-Budget Report Position

	2021/22 £m	**2022/23 £m**	**2023/24 £m**
Pre-Budget Report Position	**6.2**	**17.8**	**24.3**
Resources	(21.2)	0.0	0.0
Expenditure Pressures	11.3	0.3	0.3
Technical Savings	(2.5)	0.0	0.0
Reserve Contributions	6.2	(1.0)	(1.0)
Final Budget Position	**0.0**	**17.1**	**23.6**

Table 3: Detailed Changes in Proposals Compared with the Pre-Budget Report Position

	Appx 1 Line Ref	2021/22 £m	2022/23 £m	2023/24 £m
Pre-Budget Report Position		**6.2**	**17.8**	**24.3**
New Homes Bonus	2	(2.9)	0.0	0.0
Lower Tier Services Grant	2a	(0.6)	0.0	0.0
2021/22 COVID-19Expenditure Pressures Grant	2b	(11.3)	0.0	0.0
Local Council Tax Support Grant	4a	(3.9)	0.0	0.0
2021/22 Social Care Grant	7a	(2.5)	0.0	0.0
Albany Theatre Capital Financing	18a	0.0	0.3	0.3
2021/22 COVID-19 Expenditure Pressures and Income Loss	31a	11.3	0.0	0.0
Coventry and Solihull Waste Disposal Company Dividend	42a	(2.5)	0.0	0.0
Reserve Funding to Compensate for Dividend Loss	43	2.5	0.0	0.0
Reserve Funding to Compensate for Temporary Council Tax and Business Rates Loss in 2021/22	44	3.7	(1.0)	(1.0)
Final Budget Position		**0.0**	**17.1**	**23.6**

2.3 Capital Strategy and Expenditure Programme

2.3.1 Under the Prudential Code authorities are required to produce a Capital Strategy that covers a broad range of capital related issues including: capital expenditure and resourcing; borrowing and liabilities, and their repayment through Minimum Revenue Provision; loan commitments and guarantees; and treasury and commercial investments. These areas are covered either in this section or elsewhere in this report where appropriate (e.g. the Treasury Management Strategy or Commercial Investment Strategy).

2.3.2 In **Appendix 4** there are proposals for a Capital Programme of £220.4m which contains a number of strategically significant schemes. This compares with the current projected 202021 programme of £231m and continues a period of high sustained programme spend in comparative terms. A full 5-year programme is detailed in **Appendix 4** with the main 2021/22 planned expenditure as follows:

- £61m of investment in the city's highways, transportation and public realm infrastructure. This includes the completion of the Whitley South bridge, UK Central and Connectivity programmes as part of the Strategic Transport

Investment Programme, Public realm provision under City of Culture and Coventry Station Masterplan

- £14m to implement the local plan for NO2 (Nitrogen Dioxide) Air Quality compliance for the city. The package of measures includes delivering works to Coundon Cycleway, Arches Spon End Pinchpoint, Junction 7, Upper Hill Street and Foleshill Road.
- £43m for the second phase (Building 2 and the Hotel) of the Friargate Business District and the redevelopment of a major part of the City Centre
- A £32m programme within the Education and Skills Portfolio, seeing the continuation of the Education One Strategic Plan and investment in secondary school provision.
- £22m for a series of schemes aligned to the the UK City of Culture including the planned refurbishment of St Mary's Guildhall.

2.3.3 The 2021/22 Programme requires £32.2m of funding from Prudential Borrowing, £30.9m of which relates to previous approvals for the Coventry Station Masterplan, replacement vehicle programme, Whitley Depot, Lenton Lane Cemetery and the re-provision of bowls. A further £1.2m relates to non-scheme specific borrowing resulting from spending decisions made in previous years. Over the course of the future 5 year programme set out, the Council is set to incur £91.8m of borrowing. This borrowing has been the subject of previous decisions and will, overwhelmingly, be supported by business cases that have identified income streams to cover the capital financing costs, all of which is factored into the Council's medium term financial plans. Nevertheless, in comparison to the Council's existing level of borrowing this is a significant shift in the Council's external indebtedness.

2.3.4 In addition to the opportunities to receive additional external funding, the Director of Finance will continue to explore options to fund the programme in the most appropriate way depending on the balance of resources, including using capital receipts to reduce the overall need to borrow. In reality, any displacement of borrowing from this source is likely to be at a comparatively low level based on the current level of available receipts. In addition to the Prudential Borrowing referred to above, the other main source of funding for the 2021/22 Capital Programme is £166m of Capital grants as follows.

Table 4: Capital Grant Funding

Grant	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £m
Arts Council (DCMS)	7.1	0.0	0.0	0.0	0.0	**7.1**
Disabled Facilities Grant	5.8	3.4	3.4	3.4	0.0	**16.0**
Department for Transport	25.0	5.6	0.0	0.0	0.0	**30.6**
Department for Communities & Local Government	2.5	2.1	0.4	0.0	0.0	**5.0**
Education Funding Agency	26.3	17.2	6.9	2.4	2.4	**55.2**
Getting Building Fund (BEIS)	11.0	0.0	0.0	0.0	0.0	**11.0**
Heritage Lottery Fund	0.1	0.0	0.0	0.0	0.0	**0.2**
Highways England	1.3	0.0	0.0	0.0	0.0	**1.3**
West Midlands Combined Authority	78.9	73.7	6.0	0.0	17.4	**176.1**
Ministry of Housing, Communities & Local Government	5.0	23.3	20.0	0.0	0.0	**48.3**
Private Sector Contribution for Whitley South	0.8	0.0	0.0	0.0	0.0	**0.8**

All Other Grants & Contributions	1.7	1.0	0.0	0.0	0.0	**2.7**
TOTAL PROGRAMME*	**165.6**	**126.5**	**36.6**	**5.8**	**19.8**	**354.3**

*Totals are subject to minor rounding differences.

2.3.5 The programme is based on an approach to the capitalisation of expenditure set out within the acounting policies section of the Council's Statement of Accounts. This approach is based on proper accounting practices, amended as required by local government capital finance regulations. In broad terms assets are treated as capital where they have a useful life of longer than one year and are not intended for sale during the normal course of business.

2.3.6 **Forecast Capital Expenditure and Resourcing Programme**

The Programme included has been evaluated to identify a likely best profile of spend based on current knowledge of individual projects. In part this is to maximise the amount of programmed expenditure to meet expectations of grant funding bodies but there are also local expectations to inject momentum into the programme to ensure sufficient progress is made ahead of other developments, including the UK City of Culture in 2021. In overall terms, 2021/22 will continue the high level of programme spend witnessed in recent years and involves a number of complex and overlapping projects within a relatively compact city, delivery of which will once again represent a significant challenge for the Council. Section 5.1.4 recognises the risks inherent in this. Given the innovation involved in some of the projects, the milestones that need to be achieved to satisfy grant funded bodies and the potential for delay given the interdependency of some schemes, it should be recognised that the profile for some schemes could shift significantly between years, with the potential for expenditure being rescheduled into later periods.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2021/22 as a result of the 2020/21 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 5: 2021/22 – 2025/26 Capital Programme (Expenditure & Funding)

Portfolio Expenditure	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Policy and Leadership	21,614	75	0	0	0	**21,689**
Strategic Finance & Resources	70	0	0	0	0	**70**
Education & Skills	31,913	17,905	7,096	5,907	2,414	**65,235**
Jobs & Regeneration	95,548	85,706	27,075	41,407	17,375	**267,111**
City Services	59,771	30,516	6,744	5,996	0	**103,026**
Adult Services	5.756	3,402	3,402	3,402	0	**15,962**
Public Health & Sport	2,024	64	147	723	0	**3,021**
Housing & Communities	3,710	0	0	0	0	**3,710**
TOTAL PROGRAMME	**220,406**	**137,668**	**44,464**	**57,435**	**19,852**	**479,824**

Funding	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Management of Capital Reserve	616	200	200	0	0	**1,016**
Capital Unringfenced Receipts	8,796	200	125	125	0	**9,246**
Capital Ringfenced Receipts	920	0	0	0	0	**920**
Prudential Borrowing	32,213	7,457	4,360	47,780	0	**91,810**
Grant	165,582	126,467	36,645	5,838	19,789	**354,320**
Capital Expenditure from Revenue	2,849	3,310	2,987	2,969	0	**12,115**
Section 106	9,430	34	147	723	63	**10,397**
TOTAL PROGRAMME	**220,406**	**137,668**	**44,464**	**57,435**	**19,852**	**479,824**

2.3.7 Generation of Capital Receipts

In order to generate resources to fund new capital investment the Council is able to dispose of property assets and will seek to do so in particular where these yield low or no rental income. As capital receipts, the proceeds from such disposals can only be used to fund new capital expenditure or repay debt, but cannot ordinarily be used to fund revenue expenditure. The Council has sought to use its receipts actively in recent years both to fund the purchase of new income generating assets or to support priority capital projects such as the cultural capital investment programme. Following changes to the rules governing the Public Works Loans Board – the Government's main vehicle to provide long-term lending to local government – the Council will not be seeking to purchase further income generating assets at this stage. However, existing projects still assume funding from receipts for the next three years. The following table sets out the Council's forecast capital receipts flows and expenditure commitments although these are subject to significant volatility given the nature of activity in this area.

Table 6: Forecast Capital Receipts

	2021/22 £000s	2022/23 £000s	2023/24 £000s	£2024/25 £000s
Forecast (Receipts Brought Forward)/Receipts Shortfall	(20,906)	(15,878)	(17,778)	(17,253)
Forecast New Receipts	(7,310)	(14,500)	0	0
Total Receipts	**(28,216)**	**(30,378)**	**(17,778)**	**(17,253)**
Commitments	12,338	12,600	525	0
Receipts Shortfall/(Receipts Carried Forward)	**(15,878)**	**(17,778)**	**(17,253)**	**(17,253)**

2.3.8 Guarantees, Loan Commitments and Other Liabilities

The Council currently provides a small number of guarantees to third parties, for example in respect of long term pension liabilities. One benefit of this type of arrangement is that a smaller pension contribution can be secured for the organisations in question, as a consequence of the Council's longer term credit strength. Such guarantees can be historic, arising through the Council's past relationships with those organisations. In providing guarantees the Council is accepting risk, and each is reviewed on a case by case basis, taking into account the overall level of risk exposure.

Where the Council has commited to make a loan, but has yet to make the advance, for example in making a forward treasury investment or in agreeing a loan facility to be advanced over time, such loan commitments are taken into account in managing the Council's overall investment exposure.

The Council's long term liabilities comprise two main elements: the long term borrowing set out in the Treasury Management Strategy (section 2.4) and the pension fund liability of £573m (31st March 2020). The pension deficit crystalises over time as payments to members become due. However, the net position on the pension fund tends to fluctuate year on year, being dependent on a number of variables, including life expectancy levels, inflation and investment returns. Contributions are set in order to manage the deficit over the longer term, reflecting the nature of the liability.

2.3.9 Capital Financing Requirement

Taking into account the planned programme set out in the Table 5 above, the estimated Capital Financing Requirrement (CFR), representing the underlying need to borrow for capital investment purposes, is detailed in the following table below:

Table 7 : 2021/22 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Opening CFR - 1st April	**493.6**	**515.3**	**529.5**	**516.6**	**498.3**
Capital Spend met form borrowing	36.4	32.2	7.5	4.4	47.9
Minimum Revenue Provision	-13.3	-16.3	-18.5	-20.7	-21.7
Other	-1.4	-1.7	-1.9	-2.0	-2.3
Closing CFR - 31st March	**515.3**	**529.5**	**516.6**	**498.3**	**522.2**

Over the 5 years from 1st April 2020, it is forecast that the CFR will increase by c£29m or approximately 6% reflecting the the level of the borrowing required to meet the capital programme, less amounts set aside to repay debt as Minimum Revenue Provision (MRP).

2.3.10 Revenue Budget Implications

The revenue cost of the proposed Capital Programme, in the form of net interest on debt, plus the amount set aside as MRP to repay debt is the total general fund capital financing cost. It is forecast that these financing costs will increase from £32.6m in 2020/21 to £40.0m in 2023/24, reflecting the increased capital expenditure to be resourced by borrowing. Due to the long term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the coming years will extend for up to 50 years, in line with the Council's Minimum MRP policy set out in Section 2.4.4.

2.3.11 The Section 151 Officer considers that the capital strategy, including the capital expenditure programme and resourcing as set out in this report, is prudent, affordable and sustainable, and that the level of borrowing and commercial investment income are proportionate to the resources available to the Council.

2.4 Treasury Management Strategy Statement 2021/22

<u>Introduction</u>

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

A suite of Prudential Indicators for the treasury and capital programme management is set out at **Appendix 6a**

The Local Authorities (Capital Finance and Accounting) Regulations 2003, require the approval of a Minimum Revenue Provision (MRP) statement setting out the Council's approach. The proposed approach is set out at Section 2.4.4.

2.4.1 Economic Environment

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Council's treasury management strategy for 2021/22. The Bank of England (BoE) Monetary Policy Committee on the 4th February 2021, voted unanimously to maintain the official Bank Rate at 0.10%. UK Consumer Price Inflation (CPI) for December 2020 registered 0.6% year on year, up from 0.3% in the previous month.

In terms of credit outlook, the credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of Covid 19. In terms of Interest rates, the Council's treasury management advisors, Arlingclose, are forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. Further interest rate cuts to zero, or possibly negative, cannot yet be ruled out although this is not part of the Arlingclose central forecast. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates.

2.4.2 Coventry City Council Position

On 31st March 2021, the Council will hold an estimated £335.3m of long-term borrowing and £40m of treasury investments. This is set out in further detail in the tables below:

Table 8: Estimated Long Term Borrowing at 31 March 2021

	31 March 2020 £m	31 March 2021 £m
External borrowing:		
Public Works Loan Board (PWLB)	190.4	190.4
Money Market Loans (Incl. LOBO's)	38.0	38.0
Stock Issue	12.0	12.0
West Midlands Combined Authority	0.0	18.0
Total external borrowing	**240.4**	**258.4**
Other long-term liabilities:		
Private Finance Initiative	65.2	65.2
Leases	0.0	0.0
Transferred Debt (other authorities)	10.2	11.7
Total other long-term liabilities	**75.4**	**76.9**
Total gross external debt	**315.8**	**335.3**

Table 9: Estimated Treasury Investments at 31 March 2021

	31 March 2020 £m	31 March 2021 £m
Treasury investments:		
The UK Government	0.0	0.0
Local authorities	0.0	0.0
Other government entities	0.0	0.0
Secured investments	0.0	0.0
Banks (unsecured)	0.0	0.0
Building societies (unsecured)	0.0	0.0
Registered providers (unsecured)	10.0	10.0
Money market funds	6.9	0.0
Strategic pooled funds	30.0	30.0
Real estate investment trusts	0.0	0.0
Other investments	0.0	0.0
Total Treasury investments	**46.9**	**40.0**

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4.3 Borrowing

The Council at 31 March 2021 will hold an estimated £374.8 million of long and short-term borrowing. The outstanding £39m of short-term loans taken out in 2020 are scheduled to be repaid by the end of April 2021. The short-term funds were accessed solely to enable a heavily discounted upfront payment of £97.8m to be made to the West Midlands Pension Fund as payment representing three years employer's contributions.

The borrowing sums have been used as part of the Council's strategy for funding previous years' capital programmes. Although local authorities have scope to borrow in advance of need, essentially borrowing on the basis of future capital spend, it is proposed that the City Council's current practice of not borrowing in advance of need continues.

The detailed objectives that underpin the Treasury Management Strategy in relation to borrowing are to:

- Maintain adequate liquidity so that cash requirements are met;
- Minimise the cost of debt whilst maintaining long term certainty in interest rate exposure;
- Manage the total debt maturity profile, having no one future year with a disproportionate level of debt repayments;
- Undertake the restructuring of debt, in order to minimise the costs through actively reviewing opportunities for rescheduling.

Strategic Approach:

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

The Council has raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, while also investigating the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

The Public Works Loans Board (PWLB) is the main source of loan finance for funding local authority capital investment. In November 2020 the rules governing local authority access to PWLB changed, as interest rates were reduced by 1%, making PWLB more competitive than was previously the case. However, with some limited exceptions, PWLB loans are no longer available to local authorities that plan to buy investment assets primarily for yield, such as property purchased for a financial return, where they are not clearly serving some other significant service objective. Local authorities can continue to purchase income earning assets, without breaching PWLB conditions, where the purchases are primarily for service objectives such as economic regeneration, transport or housing, for example as part of a wider economic development scheme. The

restrictions apply even if an authority doesn't plan to fund the investment by borrowing, and decides to use other resources, such as capital receipts.

The loss of access to PWLB would remove the major, competitively priced, flexible source of funding, which provides local authorities with a significant source of liquidity. Consequently, it is proposed that the Council does not buy investment assets primarily for yield, in order to retain its access to PWLB loans. In respect of borrowing more generally, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The Council may also borrow further short-term loans to cover cash flow shortages.

The main sources of borrowing are:

- HM Treasury's PWLB lending facility
- bank or building society authorised to operate in the UK
- UK Local Authority and UK public sector body
- UK public and private sector pension funds (except West Midlands Pension Fund)
- Stock Issue (Bond Issue)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of raising capital finance may be undertaken by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Further detail on alternate funding sources is provided below:

- UK Local Authority and UK public sector body – Traditionally inter local authority borrowing has been used to manage shorter term cashflow demands, but there is now greater potential for longer term arrangements.
- UK Municipal Bonds Agency plc - This was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities.
- LOBOs - The Council holds £38m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £10m of these LOBOs have options during 2021/22, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

There may be potential to reschedule debt through redeeming existing borrowing early and replacing it with borrowing at lower interest rates. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Given the capital programme and the increase in the underlying need to borrow represented by the Capital Financing Requirement **(see Appendix 6a),** the Council may need to borrow in the coming year. Taking account of interest rates, the level of investment balances, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2021/22 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.4 Minimum Revenue Provision (MRP)

Local authorities are required to make prudent provision for the repayment of long term capital programme borrowing through a revenue charge (MRP). The aim of prudent provision is to ensure that the revenue charge broadly reflects the period over which benefit is derived from the capital spend e.g. broadly the life of an asset purchased or built. It is proposed that the policy continues:

- For capital expenditure incurred before 1st April 2008, the Council will set MRP as a fixed charge of 2% pa of the relevant element of the Capital Financing Requirement, adjusted for the Adjustment A. Under the existing policy approved by Council on 23rd February 2016, the impact of this change in methodology is to be calculated with effect from 2007/08. In line with the transitional arrangements set out in the Statutory Guidance on Minimum Revenue Provision any amounts calculated will be treated as overpayments of MRP and may therefore be incorporated into future calculations of prudent provision. In total, the amount to be treated as overpayment of MRP is £35.7m to 2015/16.
- From 1st April 2008 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated asset life of the assets, using either the annuity or equal instalments calculation method or a depreciation calculation;
- MRP for leases brought onto the balance sheet under accounting rules will match the annual principal repayment for the associated deferred liability;
- Voluntary revenue provision will not be made and capital receipts not set aside to repay debt, unless approved in line with the financial procedure rules. Amounts voluntarily set aside as capital receipts and revenue provision in previous years will be treated as overpayments of MRP in line with the Statutory Guidance on Minimum Revenue Provision. In total, the amounts to be treated as overpayments are : £7.8m (voluntary revenue provision to 2015/16) and £28.9m (voluntary capital receipts set aside to 2015/16).

2.4.5 Investments

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £45 and £113 million, and similar levels are expected to be maintained in the forthcoming year. The detailed objectives for investment that underpin the Treasury Management Strategy are to:

- Maintain the capital security of sums invested,
- Maintain adequate liquidity;
- Maximise the revenue benefit by retaining external investments, repaying existing loans and avoiding new borrowing as appropriate given prevailing and forecast interest rates.

The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategic Approach

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to keep diversifying into more secure and/or higher yielding asset classes during 2021/22. The main investments used by the Council for any surplus cash is currently short-term unsecured deposits with banks, building societies, local authorities, the government and registered providers, along with Pooled funds such as Collective Investment Schemes and money market funds. This diversification will represent a continuation of the approach adopted in 2020/21. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

Table 10: Approved counterparties and limits

Sector	Time limit (maximum)	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	2 years	£20m	Unlimited
Secured investments*	20 years	£20m	£20m per group
Banks (unsecured)*	5 years	£10m	£20m per group
Building societies (unsecured)*	5 years	£10m	£20m per group
Registered providers (unsecured)*	5 years	£10m	£20m in total
Money market funds*	n/a	£20m	£100m in total
Strategic pooled funds	n/a	£20m per fund	£50m per manager
Real estate investment trusts	n/a	£20m per fund	£50m in total
Corporates and Other investments*	20 years	£10m	£20m in total

This table must be read in conjunction with the notes below:

*A minimum credit rating limit will apply to the Treasury investments in the sectors marked with an asterisk. Investments will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be suitably creditworthy.

Credit risk remains central to local authority investment management. Whilst the risk of banking failures has reduced, it has not dissipated altogether. Unqualified support by government is now unlikely, in part as a result of regulatory changes. This means that in the event of a banking failure, it is almost certain that unsecured creditors and corporate investors would suffer some losses. The change in the nature of investment risk reflects a move away from “bail out” by government to “bail in” by corporate investors. Recent changes in legislation means “bail in” has an even greater effect on the Council as Local Authority unsecured investments are one of the first investment classes subject to “bail in. These trends increase the importance of the diversification of investments as a way of mitigating the potential impact of “bail in” risk.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Credit ratings are obtained and monitored by the Council’s treasury advisors, who will notify changes in ratings as they occur. The credit rating criteria are those determined by the Fitch crediting rating agency. In addition, the Council also has regard to the two other agencies that undertake credit ratings; Standards and Poor’s and Moody’s, in determining the lowest acceptable credit quality.

Some detail on investment counterparties is outlined below:

- Government - Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years. This relates to investments with the Debt Management Office (DMO), Treasury bills and gilts.

- Secured investments - Investments secured on the borrower’s assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- Banks and building societies (unsecured) - Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

- Registered providers (unsecured) - Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known

as housing associations. These bodies are regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

- Money market funds - Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

- Strategic pooled funds - Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

- Real estate investment trusts (REIT) - Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

- Other investments - This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

- Operational bank accounts - The Council may incur operational exposures, for example though current accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in.

Investment limits are placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 11: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries *	£20m per country

*The minimum sovereign rating for countries other than the UK, in whom counterparties are located is A- with any investments in countries with a rating below AA+ being classified as non-specified investments, subject to a total limit of £10m.

The cash flow forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Separately, the City Council holds long-term investments or provides loans for operational or policy reasons, these investments are covered by the Commercial Investment Strategy (Section 2.5 and Appendix 5).

2.4.6 Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

- Financial derivatives (Councils) **-** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

  The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

  Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria.

  In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

- Markets in Financial Instruments Directive - The Council has retained professional client status with its providers of financial services, including [advisers, banks, brokers and fund managers], allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Finance believes this to be the most appropriate status.

2.4.7 Treasury Management Advisors

The Council employs consultants, currently Arlingclose, to provide treasury management advice. A key element of this is the provision of advice on credit risk and the supply of information on credit ratings from the 3 rating agencies, referred to above. Regular review meetings with the advisors provide a vehicle through which quality is managed. In

addition, within the City Council, senior managers within the Finance service meet on a periodic basis to review treasury issues, including the use of advisors.

2.4.8 **Treasury Management Staff Training**

The Council's process of performance management, of which competency based appraisals are central, addresses the training requirements of individuals. Staff with involvement in treasury issues attend events, including training courses, seminars and networking sessions focused on treasury management as appropriate.

2.4.9 **The Prudential Code**

The current capital finance framework rests on the principle that local authorities can borrow whatever sums they see fit to support their capital programmes, as long as they are affordable in revenue terms. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. The indicators are explained and shown in **Appendix 6a.**

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

2.5 Commercial Investment Strategy

2.5.1 The proposed Commercial Investment Strategy is set out in Appendix 5 and the associated Commercial Investment Indicators in Appendix 6b. The Strategy is designed to ensure strong risk management arrangements and that the level of commercial investments is proportionate in the context of the Council's overall finances. In summary, the key issues addressed in the strategy are:

- The need to explicitly consider the balance between the security, yield and liquidity, both at strategic and scheme business case level. The guidance focuses on security in terms of the value of the asset invested in, and the ability of the authority to get back any sums invested; yield as the financial return on the investment, either as capital value or income generated, and liquidity as the ability to access liquid or cash funds from the assets when required;
- The need to consider the proportionality of the investments to the authority and set appropriate indicators to illustrate this, as recently re-emphasised by CIPFA in informal guidance to local authorities. The context is the concern that authorities might overstretch themselves relative to their capacity to manage the risk. Investments in commercial assets are proportionate to the size of the Council, with income from such investments respresenting 2.7% (forecast 2021/22) of Net Service Expenditure (Indicator 7) and with an asset value of £350m or representing 24% of the Council's Total assets (Indicator 1);
- Setting processes that ensure that the risk assessment of commercial investments is robust;
- Ensuring that there is clarity about the contribution that the investments make to the authority, both in terms of financial return, but also in service or policy terms.

2.5.2 In addition, the statutory and CIPFA guidance seek to stop authorities borrowing to fund commercial investments purely for profit, particularly where borrowing is seen as disproportionate to the size of the authority. This is also described as borrowing in advance of need. The bulk of City Council commercial investment is focused on the city or

region, with a significant service dimension, for example growth or economic development objectives rather than being purely for profit. In addition, with the change in PWLB lending terms set out in Treasury Management Strategy, commercial investments will be made only where they do not jeopardise access to PWLB.

2.5.3 In respect of the various types of investment that the Council makes, the strategy sets out the approach to ensuring that the requirements are met, through a combination or policies, processes and investment indicators. Specific indicators include exposure limits in 2021/22 for service loans and shares. It is proposed that the current limits of £53m and £50m respectively are retained for 2021/22 (Appendices 5 & 6b). Revision of these limits would require the approval of Council.

2.5.4 In part due to the impact of Covid-19, there has been an increasing demand for councils to provide financial support to organisations encountering cashflow and other problems. The Council has responded by providing loan finance locally, both direct to organisations and also as part of the government's coronavirus business support arrangements. In addition, strategically important service developments such as the Municipal Recycling Facility require share and loan financing by stakeholder authorities. In financially very uncertain times there is an increased risk of loss when making investments and giving support, and this has been seen in different parts of the country as developments have encountered financial problems. Within this wider context it is likely that greater sums will need to be provided for potential losses that may arise on loans provided by the Council. As referred to in the Quarter 3 financial monitoring report this will be reviewed in detail and provided for in the 2020/21 accounts.

3. Results of consultation undertaken

3.1 The proposals in this report have been subject to public consultation. The Council hosted a survey on its website asking for people's views of the budget proposals and provided the opportunity to make representation to the Trades Unions and Chamber of Commerce. The details arising from the consultation are set out in Appendix 2 and these have not resulted in any changes made between the Pre-Budget Report and this report.

4. Timetable for implementing this decision

4.1 Many of the individual changes identified within this report will take effect from 1st April 2021. The proposed profile of these changes are set out in Appendix 1.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial Implications

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2021/22 revenue and capital budget supported by the Council Tax Report that will be considered alongside this one.

5.1.1 Financial implications - Medium Term Position

This report sets out proposals that will deliver a balanced budget for 2021/22. The new funding arrangements that were planned by Government to be put in place have not yet occurred so the Council is still planning within an uncertain environment. The significant financial gap projected currently for subsequent years demonstrates the need for the Council to continue to exercise robust financial disciplines and to take a medium term approach to Budget setting. Nevertheless, the Council remains in a strong position to meet the financial challenges that it is likely to face. It will remain key for it to deliver seek to deliver several key transformation programmes that are being developed under the banner of One Coventry.

5.1.2 Financial Implications – Reserves

The Local Government Act 2003 requires the Chief Financial Officer to give assurance on the adequacy of reserves of the Authority for which the budget provides. The final position of reserve balances carried forward into 2021/22 will not be known until finalisation of the 2020/21 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2019/20 stood at £90m. Other reserve balances set aside to fund capital schemes stood at £33m and balances owned by the Council's local authority maintained schools and outside the Council's control, stood at £21m at 31st March 2020. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2020. The level of balances is set out in the table below.

Table 12: 2019/20 Reserve Balances

	Balance at 31st March 2019 £000	(Increase)/ Decrease	Balance at 31st March 2020 £000
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(3,534)	521	(3,013)
Public Health	(788)	(568)	(1,356)
Troubled Families	(1,095)	594	(501)
Leisure Development	(1,334)	510	(824)
Kickstart Project	(1,278)	1,278	0
City of Culture	(4,750)	750	(4,000)
Potential Loss of Business Rates Income	(7,735)	0	(7,735)
Early Retirement and Voluntary Redundancy	(10,070)	747	(9,323)
Covid-19 Government Funding	0	(7,558)	(7,558)
Reset and Recovery	0	(5,467)	(5,467)
Commercial Developments	(4,000)	(419)	(4,419)
Insurance Fund	(1,698)	977	(721)
Management of Capital	(5,399)	(165)	(5,564)
Private Finance Initiatives	(10,169)	702	(9,467)
Other Directorate	(9,489)	(1,799)	(11,288)
Other Directorate funded by Grant	(1,564)	502	(1,062)
Other Corporate	(8,589)	1,243	(7,346)
Total Council Revenue Reserves	**(81,769)**	**(8,152)**	**(89,921)**
Council Capital Reserves			
Useable Capital Receipts Reserve	(21,467)	(9,632)	(31,099)
Capital Grant Unapplied Account	(1,894)	60	(1,834)
Total Council Capital Reserves	(23,361)	(9,572)	(32,933)

School Reserves			
Schools (specific to individual schools)	(20,308)	2,301	(18,007)
Schools (related to expenditure retained centrally)	(6,084)	2,786	(3,298)
Total Schools Reserves	(26,392)	5,087	(21,305)
Total Reserves	**(131,522)**	**(12,637)**	**(144,159)**

The large majority of the balances above are held for a clear identifiable purpose and have existing planned expenditure commitments against them or are held to protect the Council manage unforeseen risks, potential or known insurance claims or Business Rate volatility. Schools reserves are set aside exclusively for the purpose of supporting schools expenditure and capital reserves are set aside to support capital expenditure. Local authority reserves must also be viewed in the context of the risks that are faced, set out below, in section 5.1.4. For these reasons it is not appropriate to apply reserves on a regular basis to support the revenue position.

The proposed revenue budget includes a contribution of £2.9m from reserves. This reflects the fact that part of the forecast loss of Council Tax and Business Rates in 2021/22 is the result of time limited effects of Covid on collection rates including the brought forward impact of 2020/21. On this basis the Council's Medium Term Financial Strategy allows for this financial impact to be funded from reserve balances on a one-off basis. This would be funded from the existing £7.7m Business Rates reserve.

CIPFA's previously published Resilience Index contained results indicating that the Council's overall level of reserves placed it in the middle of the pack compared to similar authorities (an updated index is expected shortly). The Council's level of unallocated reserves (in effect its general fund or working balance) placed it in just within the highest risk quartile. A different indicator showing the change in this balance demonstrates that the Council has increased these reserves in recent years, moving it away from what was a lower ranking previously.

Following reviews by the Cabinet Member for Strategic Finance and Resources and the Council's Finance and Corporate Serivces Scrutiny Board, reserve balances totalling £5.6m have been identified which are not earmarked currently. Given the future financial pressure which it is expected will be put onto local authority budgets it is proposed that this resource is applied in a way that helps to sustain the Council's future financial resilience. This could include internal transformation activity and strategic infrastructure projects in particular where these generate future quantifiable financial benefits. This new Innovation and Development Fund would be operated on a revolving funds basis where possible enabling part of any financial benefits to be reinvested in the fund and would be supplemented from other sources as opportunities arise to create additional balances for future investment purposes. The recommended approach is for decisions on the Fund to be delegated to Strategic Management Board with oversight from the Leader, Deputy Leader and the Cabinet Member for Strategic Finance.

Taking all this into account, it is the view of the Director of Finance that overall levels are adequate to support the recommended budget for 2021/22. This judgement is based on the following:

i) The Council is adequately provided for in terms of its reserves compared to its overall level of budget and better provided for than some other similar authorities.

ii) The level of reserves is sufficient to support contributions to 2021/22 directorate-based budgets (including schools) and Corporate commitments both for capital and revenue purposes.
iii) The level of uncommitted General Fund Reserves provides a sufficient level of short-term resource to meet any other unforeseen eventualities (within reasonable limits of assessed risk) balanced against pressures to not hold an excessive level of reserve balances.

The Council's policy on reserve usage is set out in the Medium Term Financial Strategy. The overriding aim is to ensure that reserve usage is focused on delivery of the Council's corporate priorities, recognising that reserves can only be used once and that they should not be used to support on-going expenditure. These balances are reported and scrutinised regularly.

5.1.3 Financial Implications – Assurance on the Robustness of the Estimates

Under the terms of the Local Government Act 2003, the Chief Financial Officer is required to give assurance on the robustness of the estimates included in the budget. In the view of the Director of Finance the budget being recommended to the City Council is supported by robust estimates of income and expenditure. This judgement is based on the following:

i) The budget has been set within the guidelines of the authority's Medium Term Financial Strategy that sets out the broad policies and assumptions that lie behind the Council's medium term financial planning process.
ii) There is a medium term financial plan in place that sets out the known changes to the current budget over four years incorporating the concept of strictly controlled directorate budgets, known policy changes and best estimates of the impact of inflationary pressures and expectations of resources.
iii) The authority operates an integrated medium term policy and financial planning process that incorporates a comprehensive and detailed assessment of the new policy and technical changes that will affect the proposed budget and the medium term budgetary position of the authority.
iv) Individual directorates, working to strict budgets, prepare detailed service budgets that are the financial representation of the authority's statutory duties and corporate service objectives for the coming year.
v) The authority's individual directorates have been involved in the make-up of the information included in the policy and financial planning process through the Strategic Management Board and Corporate Leadership Team.
vi) As discussed above, the Authority's level of reserve balances is sufficient to meet other unforeseen eventualities, within reasonable limits of assessed risk that may potentially need to be met by the authority.

Both of the authority's political groups were provided with information on the policy and financial planning process and were consulted on the options available to enable them to participate in the final budget setting decisions.

Despite these statements about robustness of estimates and reserves, the challenges facing the Council in the next few years will require regular monitoring and potentially corrective action.

5.1.4 Financial Implications - Budget Risks

In setting the budget and implementing the policies that sit behind it, the Council inevitably carries some risk. The major financial risks are set out below and will be managed through existing processes, including in year financial monitoring.

Overall Risks - In considering the Council's corporate objectives in the context of its financial position, resources have been allocated to meet corporate priorities, and savings have been identified. In these circumstances there are inherent risks that new resources are not used effectively to deliver corporate objectives and that on-going spending and income is not controlled to budgets. Operational management arrangements and quarterly monitoring reports in compliance with the Council's budgetary control rules will address this issue specifically.

5.1.4.1 **COVID-19**

The 2020/21 financial year has witnessed massive health, societal and financial impacts on the country from the Covid pandemic. The local effects of these have been covered in detail in the Council's financial monitoring reports through the year. Current conditions (in mid-February) indicate declining case numbers and rapidly increasing numbers of people have been vaccinated against the virus. Even in a best case scenario, It is still expected that 2021/22 will see very large reductions in the Council's income streams, both from Business Rates and Council Tax and a range of fees and charges and legacy costs in a number of services, most significantly in the Children and Young People's Services. The Council has budgeted separately for some of these financial impacts but has not yet committed Covid grant funding in excess of £11m announced in the Government Setlement. In this respect, the Council has probably established financial provision to protect it from a mid-case scenario. The pattern of the pandemic over the past 12 months provides clear reasons to be cautious about its future course but the Council is in a relatively secure financial position and would expect Government support to cushion local government from the worst excesses if Covid once again caused large financial losses in 2021/22.

5.1.4.2 **Children's Social Care Services –** The increased volume of cases, cost of individual placements and delays in the delivery of Children's placement transformation represented a volatile service pressure even before Covid but these accelerated through 2021/22. The impact of the most recent lockdown conditions has not yet fully materialised (in terms of hidden harm and further increases in the number of children requiring support from the service) and this will represent a clear risk through the year. Work will continue within the service to ensure safe and secure methods are found to deliver services to children within budget but reflecting the requirement to respond to potential new levels of need.

5.1.4.3 **Health and Adult Social Care –** Adult Social Care services continue to operate within a very dynamic environment with cost pressures from changes in living wage rates, increasingly complex care packages and Covid related impacts on services and market pressures. Alongside this there is a great deal of uncertainty surrounding longer term resources which is yet to be addressed by promised Government reform. Locally, this has been recognised and a medium term Adult Social Care financial plan put in place within the Council's budget recognising the increasing need for additional resources. Nevertheless, this area of activity is naturally difficult to predict and the Council needs to continue to ensure an appropriate balance between the budget available and the level of activity in line with Council policy.

5.1.4.4 **Major Infrastructure Projects –** The Council is involved in a number of major infrastructure projects around the city that give it some exposure to a degree of financial and reputational risk. These include, but are not restricted to projects such as:

- A range of significant highway and city centre infrastructure projects including the Whitley South and A46 link road projects to improve major transport routes.
- Development of the Coventry Station Master Plan alongside a range of partners to deliver transformational improvements to Coventry Railway Station.

- Very significant Public Realm regeneration projects aimed at remodelling and updating the city centre

These projects all carry different balances of risk including project overrun, over-spending, expectation to meet funding gaps and reputational damage from any of these and other factors. The Council is clear that its involvement in these projects is vital to help regenerate the city and make Coventry a better place to live, work and do business in. Overwhelmingly, these arrangements are externally funded or have self-funding business cases that keep the Council's financial costs to a minimum. Any decisions to move away from this base position would need to be made on a case by case basis within the Council's existing resource constraints.

5.1.4.5 **Commerical Projects and Financial Support –** The Council is involved in or investgating a range of major commercial acivities and interventions. These can include some of the risks outlined for the infrastructure projects above as well as some additional risk from the commercial performance of each venture. These include, but are not restricted the following projects:

- Friargate – Joint work with an external developer to regenerate a new business district involving a second office building and a new hotel in 2021/22.
- Construction and equipping of the UK Battery Industrialisation Centre via a joint venture arrangement.
- Development of City Centre South, working with a major development partner to regenerate a large area of the city centre.
- Financial arrangements made on commercial terms to help support local organisations and the Council's direct investment in Coombe Abbey Park Limited.
- Development of a Material Recycling Facility within the city.

These projects are subject to a range of ownership and company structure arrangements, complex legal and financial transactions, a risk that commercial pay-back targets (for instance to finance prudential borrowing decisions) are not achieved and a wider risk that projects do not deliver their fundamental purpose (where this is different to specific financial targets). As above, in making decisions to pursue these projects the Council is clear that its involvement is consistent with its overarching objectives. In addition, the Council undertakes significant due diligence and ensures that self-funding business cases support any expenditure to keep the Council's financial costs (and risk) to a minimum. Nevertheless, to the extent that these projects are commercial ventures it must be recognised that their future financial performance will always be subject to a degree of risk. Decisions that have been taken or that are imminent have required a level of support due in part to respond to Covid conditions for some of the Council's key delivery partners, extending the level of involvement beyond what might be considered normal. Although each of these increases the risk profile for the Council, they are (both collectively and individually) relatively modest compared to the Council's overall activity levels and do not threaten the Council's financial resilience.

5.1.4.6 **UK City of Culture** - The Council's support for the UK City of Culture programme in 2021/22 continues to involve it in a wide range of projects and require it to re-evaluate the timing and speed with which it takes forward these plans, including a massive programme of infrastructure changes. This will involve major risks such as the Council's capacity to deliver these plans, integrating a range of overlapping/conflicting projects and maintaining good governance and procurement protocols.

5.1.4.7 **Local Government Finance Changes** – further delays have now been incurred to previously indicated changes to local government finance including the overall local government funding settlement, a fair funding review (the share of local government resources allocated to the Council), Business Rates retention and announcement of

future specific grant regimes, especially those for adult social care. The longer term changes represent a resource risk for the Council and the buoyancy of local Business Rates and Council Tax is fundamental for its financial sustainability. However, due to the nature of accounting for these local income sources, the risk applies to future years such that the 2021/22 budget estimates are secure.

5.2 **Legal implications**

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2021/22 budget by mid-March 2021. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer.

6. Other implications

6.1 How will this contribute to achievement of the Council Plan

The Council, in common with all local authorities, continues to be faced with challenging resource constraints over the coming years, which will inevitably impact on front-line services. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within the Council Plan. In this way Budget proposals are aligned to existing policy priorities. There are some initial signs that the Council is moving into a new phase of financial self-sufficiency and it will want to ensure that its key objectives and financial strategies are aligned as this situation develops.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The other key financial risks are identified in section 5.1.

6.3 What is the impact on the organisation?

There are no new savings proposals presently that will impact upon the number of staff employed by the Council. Future transformation programmes, the large Capital Programme and the adoption of commercially based projects mean that the Council will have to continue to adapt to meet the challenges that it faces in terms of the way it works. In addition, the experience of Covid conditions has led many Council staff to work from home, many on a 100% basis through 2020/21. If and when Covid conditions relax during 2021/22, the Council will need to consider the extent to which the Covid experience provides a blue-print for a future model of working and an opportunity to identify more efficient ways of delivering services.

6.4 Equalities / EIA

The savings contained in this year's final Budget report are virtually all technical in nature. No equality impact has been identified in relation to these. For any budgeted savings that have not yet been implemented, equality analysis will continue to be carried out by service areas and considered by elected members at the appropriate stages of subsequent decision making.

6.5 Implications for (or impact on) climate change and the environment

The Council is due to update its Climate Change Strategy shortly to support the commitment it has made to respond to the climate change agenda. The Capital Programme includes schees related to solar panels, green home grants and air quality which are all designed to have positive impacts on the environment.

6.6 Implications for partner organisations?

None

Report author(s):
Paul Jennings

Name and job title:
Finance Manager (Corporate Finance)

Directorate:
Finance

Tel and email contact:
Tel: 02476 977228
E-Mail: paul.jennings@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Service	Date doc sent out	Date response received or approved
Contributors:				
Michelle Salmon	Governance Services Officer	Law and Governance	11/02/21	11/02/21
Jaspal Mann	Equalities and Diversity	Public Health	08/02/21	09/02/21
Helen Williamson	Lead Accountant	Finance	05/02/21	9/02/21
Louise Hughes	Accountant	Finance	05/02/21	11/02/21
Adam Stretton	Accountant	Finance	05/02/21	11/02/21
Michael Rennie	Lead Accountant	Finance	05/02/21	11/02/21
Kristi Larsen	Insight Team	Public Health	08/02/21	08/02/21
Names of approvers for submission: (officers and members)				
Julie Newman	Director of Law and Governance	-	09/02/21	15/2/21
Barry Hastie	Director of Finance	-	10/02/21	11/02/21
Councillor R Brown	Cabinet Member for Strategic Finance and Resources	-	12/02/21	15/02/21

This report is published on the council's website: www.coventry.gov.uk/councilmeetings