

Finance and Corporate Services Scrutiny Board (1)  
Cabinet  
Council

1<sup>st</sup> December 2021  
14<sup>th</sup> December 2021  
18<sup>th</sup> January 2022

**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:**

Medium Term Financial Strategy 2022-25

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**Is this a key decision?**

Yes - Cabinet and subsequently Council are being recommended to approve the Medium-Term Financial Strategy incorporating decisions which have financial implications in excess of £1m.

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**Executive Summary:**

This report presents a Medium-Term Financial Strategy (MTFS) for adoption by the City Council. The previous strategy was approved as part of the 2021/22 Budget Report in February 2021. The Strategy sets out the financial planning foundations that support the Council's vision and priorities and the financial and policy context for the Council's current Budget process. Cabinet will consider proposals within the Pre-Budget Report in December and the final Budget Setting Report will be brought to Cabinet and Council in February 2022.

The national funding background to the MTFS is that the local government will be subject to a new settlement from Government within the financial parameters of the Autumn Budget and Spending Review 2021 (SR2021) announced in October. Although a major upheaval in the funding arrangements for all councils has been signalled at regular intervals this was once again postponed in SR2021 and there will be no structural changes to the system until 2023/24 at the earliest. In addition, SR2021 provides only indicative control totals for the sector and it will not be until the provisional local government settlement is released in December 2021 that firmer indications will be provided of the Council's outline financial settlement for the next three years. The Pre-Budget report that will be considered by Cabinet alongside this one sets out the best estimate of the Council's three-year settlement financial position. Current medium-term estimates are still based on assumptions of local authorities continuing to face significant financial pressures.

The national political and financial environment has continued to be subject to fluidity and uncertainty resulting from the impact of Covid and the economic transition as restrictions have been lifted. Despite the large increase in Government borrowing incurred during the pandemic SR2021 indicated that real terms growth would be allowed across Government departments over

the medium term. How this affects the financial position for local government will not be known with any certainty until the forthcoming local government settlement although it is anticipated that demographic, societal and inflationary pressures will absorb much if not all of the indicated growth in the sector. The shorter-term impact of this is likely to be some additional funding for local government to help deal with known and growing financial pressures. The extent that the position can be forecast beyond 2022/23 will depend greatly on the detail set out in the settlement. There is every expectation that the pressure on public finances will not ease in a sustained way and that any increase in available revenue resources will be at least matched by equivalent need to meet pressures within the sector, in particular those relating to social care.

On a local level, the Council continues to be faced with challenging conditions created by the need to protect vulnerable children in the city and the pressures of delivering services for a growing city. In some sectors this has been affected by difficulties within the labour market and the need to employ external agency staffing to deliver core services. The delivery of the ambitious scale and pace of the Council's capital and transformation plans within its existing project and management capacity presents a further challenge. In addition, the elements of the Programme that are funded by future West Midlands Combined Authority (WMCA) grant approvals will not be able to proceed until resourcing for these grants has been secured through the WMCA.

Notwithstanding the approaches set out in this strategy, the Council will need to maintain dynamic financial models that take account of changes in its medium-term budget position and ongoing re-evaluation of its Capital Programme. These will be set out fully at the point of decision making.

In summary, the key national and local contexts that frame this Strategy include:

- A paramount need to protect the most vulnerable people in the city;
- Expectations on the Council to maintain service levels and standards across a wide range of core services, in part redefined within an updated set of policy priorities;
- A comparatively high rate of local population growth causing greater demand and expenditure pressures in areas such as social care, waste disposal and housing;
- Any growth in the level of government resources within a revised local government funding framework being absorbed by spending demands, especially within social care sectors;
- A Business Rates retention system emphasising the continued importance of promoting growth in the local economy;
- A very large Capital Programme which defines the Council's aspirational outlook, but which establishes a major programming and logistical challenge in order to deliver it.

Taken together, these factors represent a combination of limited resources, challenging underlying economic and demographic conditions, increased demand, pressure to sustain the quality of services and new challenges represented by government reform and local structural and governance relationships. In these circumstances it is crucial that the Council's financial strategy is both robust and flexible. This will provide the financial foundations required to ensure that Council services are fit for purpose to protect the most vulnerable as well as providing good core services for every citizen in the city.

In support of these aims, the City Council's strategic financial approach to the demands that it faces includes:

- An approach based on economic growth, quality of life and a commitment to delivering fundamental services as well as a greatly increased focus on actions to tackle climate change;

- A Local Plan setting the blueprint for taking the City forward, identifying land for new homes, new jobs and new retail and community uses;
- A fundamental commitment to protecting the city's vulnerable children, adults and older people;
- Managing the demand for services selectively, through digital working and community engagement;
- A programme of activity to deliver the One Coventry Plan which will change the way the Council works and engages with its customers, to achieve better outcomes and in part to achieve more efficient and cost effective services;
- A programme of major capital schemes to drive regeneration and economic growth in the city including its public realm, the city's highways network and its cultural and leisure offer to make Coventry an attractive place to live and work.
- Growing the city's local income base, within the environment of increasing localisation of funding sources, including Business Rates;
- Partnership working, including as part of the West Midlands Combined Authority, together with voluntary organisations and other partners;
- A continued drive towards income maximisation, including investment in commercial ventures within the context of robust risk management arrangements and mindful of sector guidance;
- A continued Workforce Strategy requiring a workforce working in flexible ways consistent with a modern organisation, ensuring that the Council has the talent in place necessary to deliver the challenging agenda that it faces;
- Seeking to optimise the use of pooled funding available to support social care and health;
- Seeking to modernise, rationalise and prioritise services, consider alternative service delivery models and work in tandem with partners and neighbouring authorities;
- Strong corporate financial planning, monitoring and project management arrangements;

Based on the 2021/22 approved budget, the initial financial gap for the following 3 years as at the start of the new Budget Setting round is:

	<b>2022/23</b> <b>£m</b>	<b>2023/24</b> <b>£m</b>	<b>2024/25</b> <b>£m</b>
<b>Revised Revenue Budget Gap*</b>	15.4	21.4	26.6

\*The positions for 2022/23 and 2023/24 have been updated to reflect all approved decisions up to and including the 2021/22 Budget process.

The 2022/23 Pre-Budget Report which will be considered by Cabinet alongside this report will provide the latest detailed financial position to reflect an updated financial assessment and work undertaken to balance the forthcoming budget. The scale of the financial gap shown above is not unusually large in a historical context or compared with authorities similar to Coventry and the Pre-Budget report will show measures that are likely to bring next year's position close to balance. One of the challenges of this strategy will be to move the Council towards a balanced position over the medium term although this will depend to a large degree on the content of the local government settlement. It will nevertheless require the Council to consider the need to prioritise the services that it wishes to maintain in the future and identify those that may be allocated fewer resources, managed in a different way or ceased altogether.

**Recommendations:**

Finance and Corporate Services Scrutiny Board (1) is recommended to

- (1) Consider whether there are any comments/recommendations that it wishes to make to Cabinet.

Cabinet is recommended to:

- (1) Consider any comments/recommendations from the Finance and Corporate Services Scrutiny Board (1); and
- (2) Recommend that Council approve the Strategy as the basis of its medium-term financial planning process.

Council is recommended to:

- (1) Approve the Strategy as the basis of its medium-term financial planning process.

**List of Appendices included:**

None

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

Yes - Finance and Corporate Services Scrutiny Board (1) on 1<sup>st</sup> December 2021

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

No

**Will this report go to Council?**

Yes - 18<sup>th</sup> January 2022

## **Medium Term Financial Strategy 2022-25**

### **1. Context (or Background)**

#### **1.1 Background**

1.1.1 This Strategy sets out the financial planning foundations that support the setting of the Council's revenue and capital budgets, including the policy assumptions and financial management framework that underpin the strategy. The process will culminate with the Budget Setting Report in February 2022, following the consideration of the Pre-Budget report in December 2021.

#### **1.2 National Context**

1.2.1 Local authorities continue to face severe financial pressures. In recent years the National Audit Office has reported that local authorities have faced significant central government funding cuts of nearly 50% since 2010/11, which at a time of increasing service demand, particularly in the social care sphere, mean that many authorities are using reserves to fund services in a way that is financially unsustainable.

1.2.2 The detailed resource implications of SR2021 will not be known when Cabinet considers the 2022/23 Pre-Budget Report in December although planning assumptions based on best estimates will be reflected in the report. What is known is that local authorities face a number of structural challenges in managing their finances, including the need to transition to business as usual on exiting the EU and living with the potentially longer-term financial impact of living with Covid.

1.2.3 Cost pressures and rising inflation across a number of areas including energy, supplies and staffing impose a significant burden across the economy, impacting on all sectors, with the Local Government Association recently estimating that councils are facing cost pressures of £2.6 billion each year, comprising £1.1 billion for adult social care and £1.5 billion for other services, just to keep them at their 2019/20 level of quality and access.

1.2.4 In September, the Government launched "Building Back Better: Our Plan for Health and Social Care" which when implemented is expected to introduce a cap on personal care costs, provide financial assistance to those without substantial assets, deliver wider support for the social care system and improve the integration of health and social care systems. Although limited detail is currently available, of the overall £36bn additional resourcing, the Government has identified £5.4bn (raised from a new Adult Social Care Levy) over the next 3 years, to be invested in Adult Social Care to meet the costs of implementation. Alongside a significant increase in National Living Wage next year, this is likely to have a large impact on the cost of Adult Social Care Provision going forward, and until more detail is provided the cost and the profile of the impact remains unclear.

1.2.5 In addition, local authorities are facing reduced levels of income, as for instance car parking and property rental income are hit as a result of the pandemic. Although the extent to which these changes are permanent will only become apparent over time. Nevertheless, the Council will need to budget for the impacts and assume limited government support going forward. The reality is that public sector finances are virtually always faced with the need to balance budgets under resource constraints, with the severity of these constraints being the factor that changes over time. Nationally a number of authorities have faced acute financial difficulties, with S114 reports having been issued in recent years as some struggle to set balanced budgets, with insufficient reserves to manage the transition to greater financial stability.

- 1.2.6 Commercialisation across local government through investment in property, shares and loans has come under national scrutiny, particularly where such investment is funded through borrowing. As some authorities have encountered problems with a number of their commercial investments there has been an increased focus on the regulatory framework in which authorities operate. CIPFA is currently reviewing the Prudential Code for Capital Finance and the Public Works Loans Board (PWLB) has changed the requirements governing local authority access to borrowing, in order to limit investment in commercial assets with the prime purpose of achieving a financial return or yield.
- 1.2.7 The move towards net zero emissions in 2050 will present a major challenge to all sectors of the economy. The precise role of local government in meeting that challenge and the financial dimension of doing so will only be determined over time. Coventry City Council's One Coventry Council Plan is in the process of being updated but the Council has already taken a strong stance on the issues around climate change and this will be reflected in the revised Plan.

### **1.3 The Local Dimension**

- 1.3.1 In order to ensure that Council financial plans are robust in the medium term the Council's MTFS continues to be intended to cover a 3-year period. The starting point for the Council is that it faces a large budget gap across the planning period, with starting gap of £15m in 2022/23 rising to £27m by 2024/25, a total cumulative gap of £63m over the 3-year period.
- 1.3.2 From a resource perspective Coventry has faced significant reductions over the last decade with a reduction in like for like core government funding of c£120m. Within this environment of downward pressure on resources, the Council has delivered very significant savings and identified other sources of income in order to balance its overall budget. Reserves have continued to provide a one-off resource to meet investment needs.
- 1.3.3 Against this backdrop local government has had to manage the impact of Covid-19. Whilst the Council has received unprecedented Government support for general expenditure this has tapered off in 2021/22 and is unlikely to continue at any significant level in 2022/23. The Council will remain vulnerable to future shortfalls between Government funding and the costs that they have incurred or the income that they have lost. In the meantime, the Council has provided appropriate support to local citizens, service users, businesses ratepayers and suppliers. This has included passing on of specific ringfenced funding to Business Ratepayers (in the form of rates relief and business grants) and recipients of Council Tax support, together with being actively involved in a wide range of other measures in relation to controlling Covid-19 and managing the social, environmental and economic impacts.
- 1.3.4 Apart from the financial pressures that all public bodies face, there are a range of developments set out below, which impact on the City Council:
- The importance of the West Midlands Combined Authority (WMCA) as a route to maximising investment in Coventry to drive growth and more efficiently co-ordinate services across the sub-region. Of the WMCA's planned contribution of £438m to the Council's capital programme, some £245m has been agreed in principle only, effectively being dependent on future WMCA resourcing decisions. In addition, the WMCA was successful recently in securing £1.05bn of grant funding across the region under the City Region Sustainable Transport Settlements (CRSTS), with the aim of providing investment for transformational change across the region. The precise arrangements and processes through which future WMCA programmes are

financed are yet to be determined. Consequently, the significance of the programmes and the associated resourcing streams mean that these areas continue to represent a financial risk to the authority over the MTFS period.

- The operation of integrated social care and health services within the Better Care Fund, now within the context of Sustainability and Transformation Plans across the health sector. This area continues to operate within a very dynamic environment with expanding adult social care user numbers, increasingly complex care packages, the impact of the pandemic and significant financial pressures across the sector. Although the government's initial proposals for adult social care reform focus on funding through a national insurance based social care precept and dividend taxes there still remains significant uncertainty about the extent to which funding reforms will address the underlying pressures.
- The Council's Commercialisation Investment Strategy sets out the framework within which the Council's commercial investments are to be managed. This includes the Council's company shareholdings, its commercial property holdings and the loans it provides to external organisations. The Strategy reports on the overall value of these assets (c£350m in 2021/22) and the return on them (c£18m) and is a key component of the Council's approach to managing risk. Whilst providing financial returns, the service dimension of commercial investments is important including in facilitating local regeneration, addressing market failure and supporting local organisations. The approach within the MTFS is to continue to undertake commercial activities where these are consistent with the PWLB requirements of not investing primarily for yield and where risk is proportionate to the financial strength of the Council.
- The importance of regeneration, economic support, skills and employment investment, particularly in the light of the potential changes to business rates and the impact of Covid-19. How national developments such as the Levelling Up agenda and the Shared Prosperity Fund progress will be critical in addressing these needs. As the replacement for European Union grant funding, under the Shared Prosperity funding is planned to rise to £1.5bn pa from 2024/25 nationally. The Council is also taking steps independent of these national measures, for instance taking forward plans to secure and develop a vehicle battery manufacturing Gigafactory on the outskirts of the city.
- The city's large population growth and the consequent demographic and socio-economic trends are causing increases in demand or expenditure pressures in areas such as social care and waste disposal. The costs of housing homeless individuals and families has been a very significant additional cost pressure and has represented one of the most challenging recent financial developments to face the Council. Although the number of households accepted as homeless has reduced in 2020/21 the unwinding of Covid-19 measures, such as the ban on eviction is likely to increase the number of approaches to the service.
- The continued difficult economic circumstances for many resulting from trends including changes to the Government's welfare reforms have affected the number of people seeking to access local government and voluntary sector services. The further financial distress caused by COVID-19 has inevitably added to this pressure.
- The schools sector continues to be fragmented across maintained, academy and free school provision. This has changed the face of local education provision with the reduced role of councils putting more pressure on the remaining rump of local authority education services and finances.

- The re-phasing of the UK City of Culture programme to May 2022 has provided the opportunity for the city to continue to secure cultural and economic benefits, and to contribute to Coventry's position as a global and connected city. The Council has identified resources to support the City of Culture Trust and to cover additional pressure on its own services whilst also agreeing to be the accountable body for a largely grant funded programme of capital expenditure. The Council will continue to provide financial support to the Trust and its successor body as its work transitions into a legacy programme when the City of Culture year ends.

1.3.5 There are a number of local factors that provide a solid foundation on which the city can build towards sustainable economic growth: two major universities; excellent transport infrastructure links; pockets of highly innovative businesses; significant infrastructure and connectivity investment including Friargate, Coventry station and very light rail project. Furthermore, major events such as, UK City of Culture 2021 and the Commonwealth Games 2022 are key to improving the attractiveness and desirability of the city as a venue.

1.3.6 However, significant challenges do exist for the city. The level of average pay within the city is lower than in both the West Midlands region and England as a whole, and at 5.9%, the city's unemployment rate is higher than average compared to a group of similar local authority areas, whilst inequalities in healthy life expectancy exist between areas of the city. These are set out in full within the Council's Annual Plan Performance Report 2020/21 and improvement in these and other measures will continue to be the focus of activity across Council services.

### Resource and Planning Position

The starting point for the Council's MTFs is the forecast multi-year **revenue programme** set out in the 2021/22 Budget Report in February 2021, updated for all approved future years' budget decisions known at that time. The current planning process starts with significant forecast deficits from 2022/23:

	2022/23 £000	2023/24 £000	2024/25 £000
<b>Position Carried Forward from 2021/22</b>	<b>15.4</b>	<b>21.4</b>	<b>26.6</b>

The Pre-Budget Report, which will be considered by Cabinet in December 2021, sets out the detailed financial position over the next 3 years, including emerging pressures, together with potential technical savings to partially offset the impact of these. At quarter 2 the forecast outturn for 2021/22 was a net overspend of £3.1m, taking account of the impact of Covid-19, and prior to the implementation of measures to balance spend to budget as at the year end. Significant pressures exist across several areas including children's services and highways and transport including car parking income.

The current **capital programme** approved in February 2021 includes the following expenditure profile:

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
<b>Capital Programme Spend</b>	<b>137.7</b>	<b>44.5</b>	<b>57.4</b>	<b>19.8</b>



This programme provides for several large investment schemes including a second Friargate building, regionally significant infrastructure schemes through the UK Central Connectivity programme, the Collection Centre, housing infrastructure, public realm, as well as investment in school buildings and business development. Of the total 4 year planned capital spend of £259m, £189m is resourced by grant, including significant sums through the WMCA, and £60m by prudential borrowing.

The level of prudential borrowing funding has increased in recent years, as significant sums have been invested through the capital programme. Whilst the authority has usually been able to cashflow investment through temporarily using other balances, for example grant monies received up-front prior to spend, this may not be the case in future. External borrowing will increasingly be required in line with the underlying Capital Programme. The short term/long term mix of any borrowing will be determined by the Council's cashflow needs and the interest rate environment.

The Council has significant reserves including **revenue reserve balances** of £122.5m; £26.6m of **capital reserves** earmarked to fund major capital schemes; £27.1m of reserve balances belonging to or earmarked to support **schools**, and £48.3m of **business rates relief transitional reserves**. The Council's reserves are reviewed in order to assess their adequacy for current known liabilities, approved policy commitments and financial risk, including that arising from commercial investments. The level of available reserves is important in maintaining the financial resilience of the Council. The make-up of the Council's reserves as at 31st March 2021 was:

**Table 2 Summary of Reserve Movements in 2020/21**

	1st April 2020	(Increase)/ Decrease	31st March 2021
	£000	£000	£000
<u>Council Revenue Reserves</u>			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(3,017)	(9,651)	(12,668)
Private Finance Initiatives	(9,467)	(1,527)	(10,994)
Early Retirement and Voluntary Redundancy	(9,323)	0	(9,323)
Potential Loss of Business Rates Income	(7,735)	0	(7,735)
Covid-19 Government Funding	(7,558)	0	(7,558)
Innovation and Development Fund	(5,549)	0	(5,649)
Reset and Recovery	(5,467)	0	(5,467)
City of Culture Readiness	(1,842)	(3,122)	(4,964)
Air Quality	(641)	(3,876)	(4,517)
Commercial Developments	(4,419)	0	(4,419)
Management of Capital	(5,564)	1,536	(4,028)
City of Culture	(4,000)	1,500	(2,500)
Insurance Fund	(721)	(1,327)	(2,048)
Public Health	(1,356)	(398)	(1,754)
Other Directorate	(11,187)	(3,962)	(15,149)
Other Corporate	(1,797)	(11,803)	(13,500)
<b>Total Council Revenue Reserves</b>	<b>(89,920)</b>	<b>(32,630)</b>	<b>(122,550)</b>

<b>Extra-Ordinary Item - Covid Business Rates Relief</b>	<b>0</b>	<b>(48,302)</b>	<b>(48,302)</b>
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<u>Council Capital Reserves</u>		0	
Useable Capital Receipts Reserve	(31,099)	6,363	(24,736)
Capital Grant Unapplied Account	(1,834)	6	(1,828)
<b>Total Council Capital Reserves</b>	<b>(32,933)</b>	<b>6,369</b>	<b>(26,564)</b>
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<u>School Reserves</u>			
Schools (specific to individual schools)	(18,007)	(4,289)	(22,296)
Schools (related to expenditure retained centrally)	(3,298)	(1,509)	(4,807)
<b>Total Schools Reserves</b>	<b>(21,305)</b>	<b>(5,798)</b>	<b>(27,103)</b>
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<b>Total Reserves</b>	<b>(144,158)</b>	<b>(80,361)</b>	<b>(224,519)</b>

## One Coventry Council Plan

The MTFs rests on the principles, visions and priorities set out for the City within the One Coventry Council Plan 2016-2024, which is currently being refreshed via a process that should be concluded in the first half of 2022. This will include a revised set of corporate priorities and performance measures. The MTFs will need to ensure through appropriate resource allocation decisions that it supports this plan once it has been established, alongside the fundamental aims of delivering a balanced budget and enabling the Council to fulfil its statutory duties.

The period since 2010 has been marked by Budget processes that have by necessity had to focus on balancing the Council's financial position with limited scope for significant resource allocation to reflect changes in priorities. SR2021 provides some evidence of greater stability for future local government settlements although caution is needed given the service pressures that the sector will face over the medium term. If subsequent local government settlements confirm this transition, the Council may be able to allocate additional resources to a greater range of its policy priorities. It remains likely that this will be possible only with continued success in generating commercial incomes and implementing transformative change to how services are delivered.

## Strategic Policy Assumptions

The One Coventry approach is central to the achievement of the aims set out in the Council Plan, by focusing on the way in which the Council and its employees work, both within the organisation and collaboratively more widely, in order to improve services and make the biggest possible positive impact on people's lives.

The Council had previously undertaken work on a transformation programme with activity organised into workstreams covering place-based working within our communities, commercialisation, digital activity, organisational design and use of property assets. One of the impacts of Covid has been the delay to this activity and as a result, no transformation savings were built into the 2021/22 Budget although the programme did identify some service enhancements and provided a planning framework for future improvements. The Council is subsequently refreshing its approach to transformation activity incorporating a wider series of connected workstreams across its activities, and with a focus on partnership working. This work is at an early stage but is gathering pace and will be well placed to drive achievement of the revised One Coventry Council Plan when it is approved during 2022. It is not appropriate at this

stage to assign financial savings targets to this programme. This will be reviewed as the activity is progressed with a presumption that, alongside the need to achieve better outcomes for local residents, greater efficiency should be a key part of the programme's output.

It is anticipated that the Council's prospective Budget plans for 2022/23 to 2024-25 (which will be first published after this report has been written) will continue to face financial pressure over this period and the need to change the way that it delivers some of its services to meet this challenge. Until the provisional and final local government settlements are published the Council's financial plans will contain considerable speculation although there is some evidence to suggest a more positive funding trajectory than previously. Most of these resources will be needed to meet funding pressures that had already been identified or which have emerged recently. The prospective position will continue to include the identification of technical savings within corporately held budget areas, any growth in Business Rates and Council Tax tax-bases, contributions from commercially related activity and (if required and as a back-stop) reserve contributions to manage one-off pressures.

The engagement in partnership working is central to the delivery of the One Coventry Council Plan and the MTFs, through: -

- The Council's membership of the West Midlands Combined Authority providing the opportunity to maximise investment in the city and work more efficiently across the region;
- Integrated working of Health and Social Care through the Better Care Fund;
- Partnership with key stakeholders such as the Coventry and Warwickshire Local Enterprise Partnership, the One Coventry Partnership and the Coventry and Warwickshire Anchor Alliance;
- Collaborating with voluntary bodies and community sector organisations in order to develop alternative delivery models to enable people to access effective and efficient support.

Consistent with the One Coventry Commercialisation workstream, the Council will seek to maximise income through several routes:

- maintaining the Council's default position that fees and charges should increase annually in line with inflation;
- identifying opportunities to commercialise existing activities or identify new activities that are consistent with a commercial approach and PWLB and regulatory requirements.
- generating capital receipts where there is a clear business case for doing so by disposing of property and thereby providing funds for capital reinvestment in services, driving growth or making savings through the repayment of debt.

The Council will continue to seek opportunities to make investments in a selective manner in commercial ventures to secure a financial return and achieve service policy objectives where consistent with its priorities, the One Coventry Council Plan, Commercial Investment Strategy and PWLB requirements. Such investment, for example in the further development of Friargate and the Materials Recycling Facility, will potentially include property schemes, share purchase and the provision of loans to external organisations, and will usually be designed to meet both service and financial objectives. This is likely to entail providing further investment to existing ventures for the purposes of both expansion and consolidation.

The capital programme will continue to be resourced from several sources including prudential borrowing, capital receipts and grant. The Council will seek to restrict the revenue funding of capital to on-going programmes of expenditure.

Given the level of capital programme, over the next 2/3 years it is likely that the Council will need to undertake some borrowing for capital investment. When borrowing, the Council will look beyond the traditional source of the Public Works Loans Board (PWLB), in order to minimise financing costs. In 2020 PWLB borrowing rates were reduced by 1% alongside the introduction of restrictions on access to the PWLB where an authority invested in commercial investments primarily for a financial return.

Through the Local Plan, the Council is seeking to take the city forward by working closely with its neighbours and partners. In order to drive further growth, the plan identifies land to satisfy the demand for homes, community and commercial uses, as well as addressing the need for digital connectivity and the right infrastructure.

The Council is obliged to work towards ensuring that its pension liabilities within the West Midlands Pension Fund are funded. The Council's level of funding last reported was at 98% which is much improved on levels for much of the previous period. Its contributions to the pension fund will stand at 22.9% as a proportion of the superannuable payroll in 2022/23. As an alternative to making monthly payments, in order to efficiently manage the burden of contributions, an upfront payment of £97.8m was made in 2020/21 to cover the next 3 years. The Council will continue to work with the West Midlands Pension Fund to agree employer pension contributions that strike a balance between increasing the funding level over the long-term and maintaining sustainability and affordability in relation to the Council's overall financial position. 2022/23 sees the end of the current triennial review period and a new assessment will be made of employer superannuation contributions from 1<sup>st</sup> April 2023.

### **Strategic Financial Management Framework**

The Strategic Financial Management Framework encompasses the Council's strategic financial management processes and the key financial assumptions on which the MTFS rests.

The financial management processes that underpin the MTFS are:

- A corporate planning and monitoring process that considers capital and revenue together;
- Overall direction undertaken by Strategic Leadership Team (SLT) with the One Coventry Leadership Team (OCLT) overseeing transformation programmes, quarterly monitoring and development of Budget proposals;
- A framework founded on delegation and clear accountability, with budgets managed by the designated budget holder, reported through Service Management Teams, the OCLT, SLT, Cabinet and Audit and Procurement Committee;
- A drive to identify efficiencies and achievable savings to enable the Council to optimise delivery of its policy priorities;
- Strong project management approaches, including a specific focus on cost control and programme delivery;
- Where feasible, the establishment of a balanced revenue budget and capital programme over the medium-term planning period.
- The management of reserves in a way that supports the MTFS and the Council's priorities. In particular, the City Council's approach is based on:

- A policy that reserves are not to be used to: (i) meet on-going expenditure or (ii) fund capital expenditure other than for mostly short life asset rolling programmes or in exceptional circumstances, for capital schemes of major importance;
- The classification of reserves as a corporate resource, with Cabinet via SLT considering the application of budgeted amounts unspent at year end;
- Holding reserves for a clearly identifiable purpose. This will include protecting against known or potential liabilities, at a minimum level consistent with adequate coverage of those liabilities, considering the overall level of risk faced by an organisation of the City Council's size.

The key financial or technical assumptions that underpin the MTFS are:

- Stabilised Government funding for the three years starting 2022/23 with some growth expected. This has been set out indicatively by the SR2021 although no authority level detail is available at this stage. The headline position is for a growth in funding over the period although the balance of resources available to fund services vs the amount required to pay for the Government's proposed social care reforms will dictate the extent to which the headline represents real growth for council budgets;
- In line with the Spending Review and as a technical assumption, Council Tax increases of just under 2% per annum and Adult Social Care precept increases of 1% per annum. This will be subject to political debate and decision as well as any changes at a national level;
- Increases in pay budgets of 2% per annum. This area will be kept under close review and it is expected that the Council will continue to reflect sector agreed pay awards;
- Business Rate income (plus compensating Government grants) will be assumed to be inflated broadly in line with Government dictated Business Rates multiplier inflation levels (currently RPI) amended for trends in Business Rates tax-base, collection performance and appeals.
- Planning based on the underlying Council Tax-Base growing at 0.8% per annum in line with historical trends but flexed each year where shorter-term expectations dictate;
- The budget for the Council's Asset Management Revenue Account will continue to be reviewed annually in detail as part of the MTFS, taking into account any impact of changes in: the capital programme, cash-flow forecasts, the level of provision to repay debt through Minimum Revenue Provision (MRP) and forecast interest rates. The Council's Minimum Revenue Provision (MRP) policy will be based on an approach that is both prudent and affordable in a way that reflects the long-term nature of local authority debt and assets;
- Forward financial estimates will be guided by existing CPI inflation levels in line with practice adopted across a broad range of public sector areas. This will provide the financial planning benchmark for increases in fees and charges and any areas of expenditure subject to specific inflation requirements assessed by the Director of Finance. Actual increases in fees and charges will depend upon local factors such as the need to generate enough income to meet the cost of trading services. The majority of non-employee-based expenditure budgets will not be inflated – the assumption will be that continued procurement and commissioning work plus underlying efficiency savings and the reduced purchasing requirements of some services will deliver savings equivalent to the cost of inflation. This will be reviewed on an annual basis to ensure that additional costs for external contracts which reflect patterns dictated by pay inflation or other significant inflationary pressures are built into Council budgets in the affected areas.

### **3. Results of consultation undertaken**

- 3.1 No consultation has been undertaken as part of the MTFs. The implementation of the Strategy through Budget Setting and other individual projects, programmes and initiatives will be accompanied by specific consultations as appropriate.

### **4. Timetable for implementing this decision**

- 4.1 The MTFs will underpin the proposals and approaches that will be set out in the forthcoming Pre-Budget Report and will be implemented in parallel to the proposals for setting the 2022/23 Budget.

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

#### **5.1 Financial implications**

The main body of this report is concerned wholly with financial matters. It is important that the assumptions and principles detailed in the Strategy are adopted in order for the City Council to be able to balance its budget over the medium term. Taking into account both the strategic policy and financial management assumptions set out in the report, a revised projected financial position is set out in the Pre-Budget Report.

Moving into the next phase of financial planning the initial position shows forecast gaps rising to £27m in 2024/25 although this will be updated within the Pre-Budget Report presented to Cabinet on December 14<sup>th</sup>, 2021. In addition, there are further developments which could affect the Council's Budget position adversely over this period: challenges in delivering its remaining savings targets, growth in demand pressures across several major services and the uncertainty surrounding the local government finance regime.

It is clear that Coventry faces similar challenges and major policy choices to many other authorities and the size of the gap makes it inevitable that areas not previously considered will now need to be reviewed with some services being delivered differently or quite possibly not at all. The Council will seek to identify medium-term measures linked to the One Coventry approach and set out in this report and will continue to review other measures of both a one-off and on-going impact to help balance future budgets. These approaches may include but will not be restricted to; the use of reserves, the use of Capital receipts, repayment of debt, investment in property and other investment assets, application of the Council's Minimum Revenue Provision policy and updating estimates of the Council's Business Rates and Council Tax resources.

#### **5.2 Legal implications**

The proposals in this report provide the foundations to allow the Council to meet its statutory obligations in relation to setting a balanced budget by mid-March each year, in accordance with Section 32 of the Local Government Finance Act 1992 and section 25 of the Local Government Act 2003.

### **6. Other implications**

#### **6.1 How will this contribute to achievement of the Council's Plan?**

Despite the likelihood of a somewhat stabilised funding settlement, the Council will continue to be faced with challenging resource constraints in the coming years. This will demand that there continues to be a focus is to identify additional income generation and commercial options but in a way that takes a balanced approach to financial risk. The Council's activity will be focussed on a One Coventry approach, working with partners and the community and identifying synergies between services. This may result in different

ways of delivering some services although the ultimate goal will be to deliver better outcomes for the citizens of Coventry. Within these parameters, the MTFS is closely aligned to the One Coventry Council Plan priorities.

**6.2 How is risk being managed?**

Inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed at mitigating this risk by providing a robust platform from which to deliver balanced budgets.

**6.3 What is the impact on the organisation?**

The Council will continue to be faced with some decisions about which are its core priorities, which services it may no longer be able to afford and the best mechanisms through which to deliver its services. In addition, the Council will continue to make selective use of early retirement/voluntary redundancy as a mechanism by which it is able to reduce staffing levels across the Council and will review elements of the pay and conditions of its employees through the Workforce Strategy.

**6.4 Equality and Consultation Analysis**

Equality impacts that flow from proposals within the Council's budget will be subject to assessment prior to the relevant decisions being taken. The Pre-Budget Report provides a further indication of how any equality issues will be managed.

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

The extent to which Climate Change is an emerging priority for the Council will be reflected in the revised One Coventry Council Plan during 2022 and can be expected to figure more prominently in the Council's policy and financial planning activities in the near future.

**6.6 Implications for partner organisations?**

Implementation of the Council's financial plans continue to affect the way it works with some of its partners and the implications of these changes need to be managed in consultation with partners as individual changes are identified.

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