

# Scrutiny Board 1

## Introduction to Local Government Finance 13<sup>th</sup> July 2022

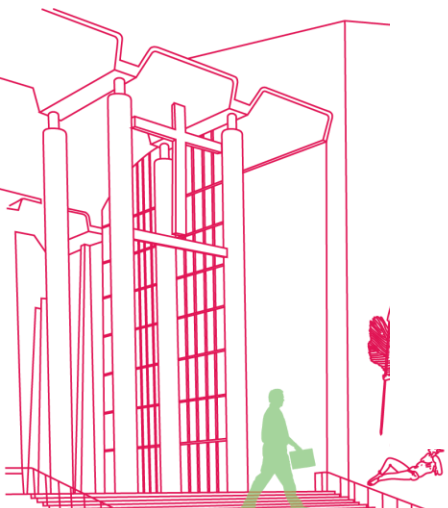
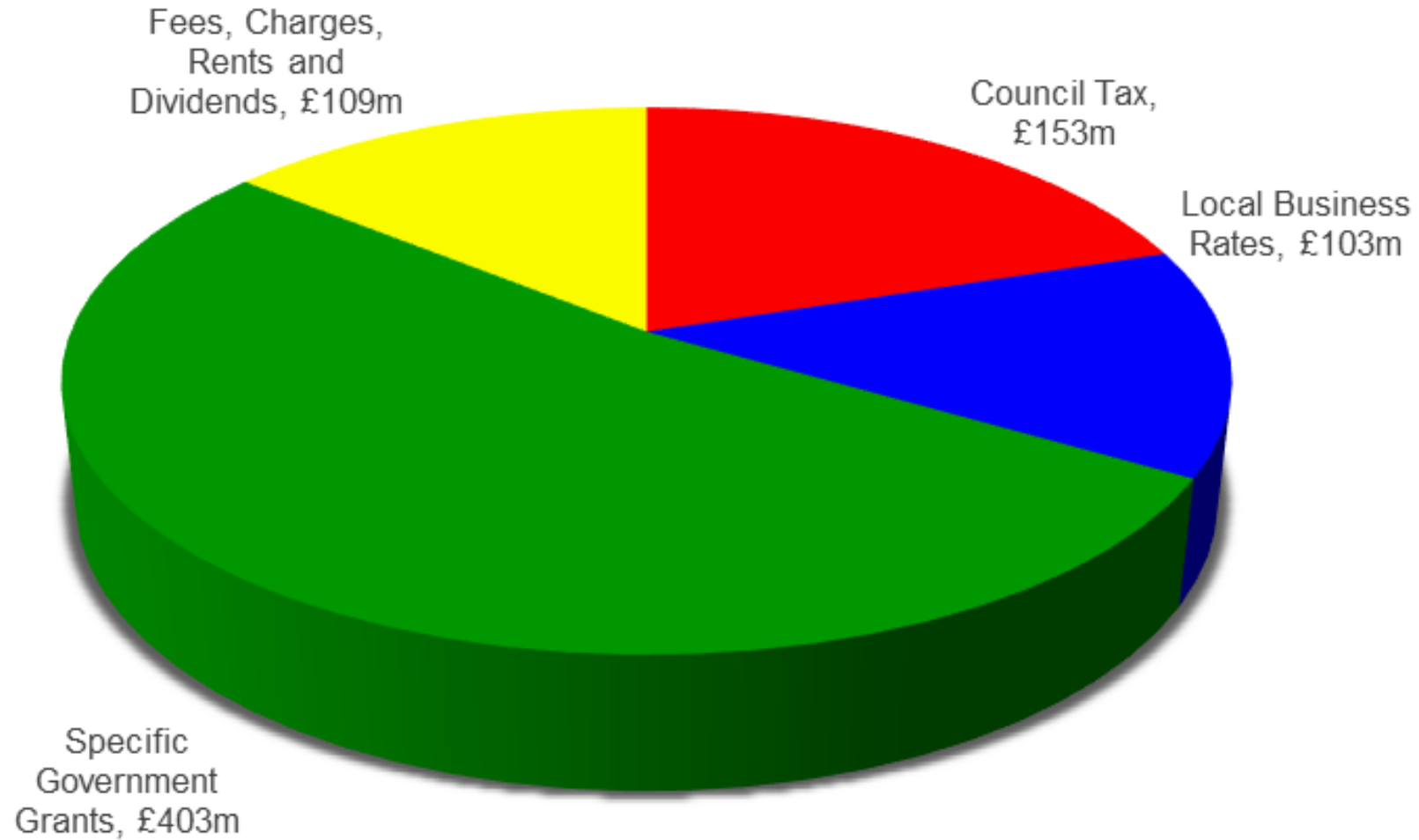


# Overall Funding

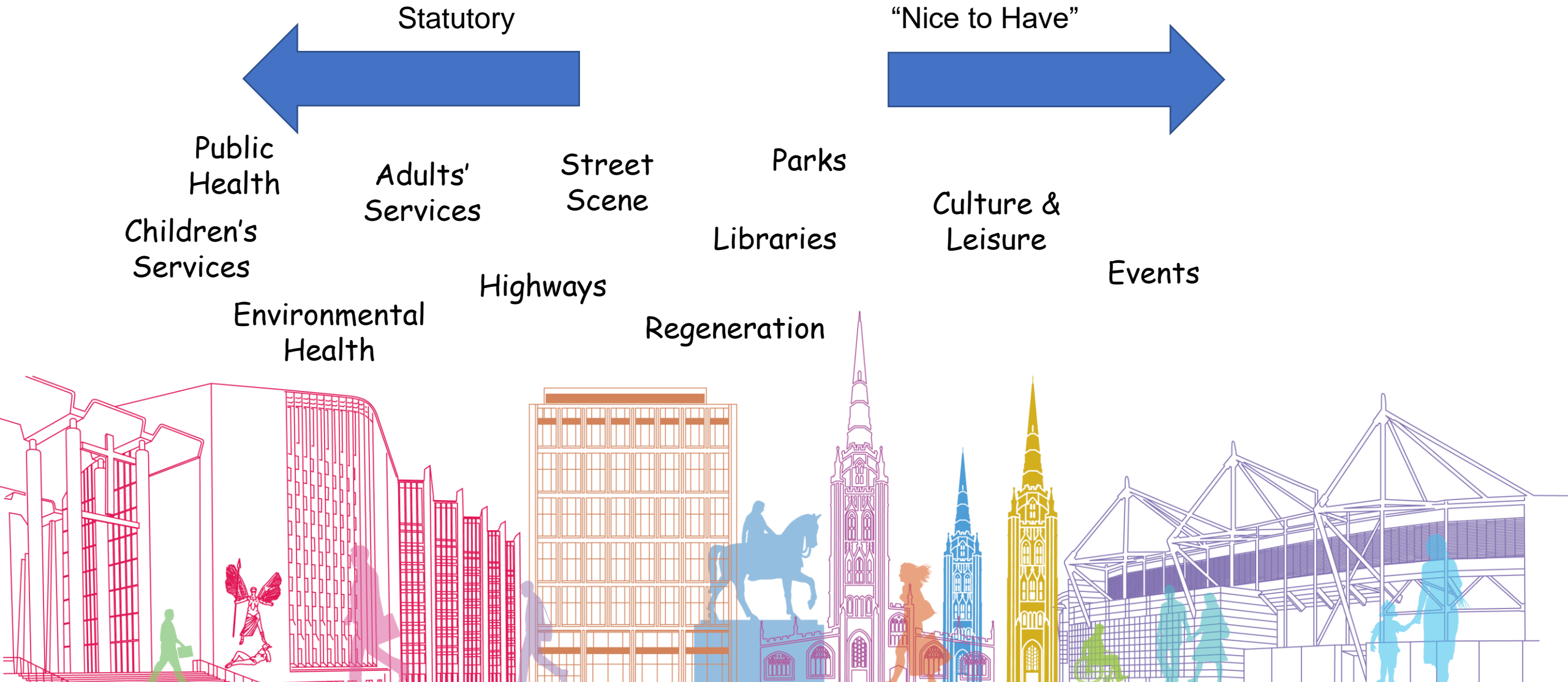
- Local Government has adjusted to lower than historic funding level
- Perception that Coventry is disadvantaged by current funding mechanism
- Funding reform has been promised but is not imminent
- Cannot afford to plan on disadvantage being corrected by reform
- Council response has been to regenerate the city, attract business, reduce deprivation and identify balanced commercial opportunities
- New threat from inflationary pressure – no sign yet that Gov't will provide additional help on this



# Funding the Council's 2022/23 Revenue Budget

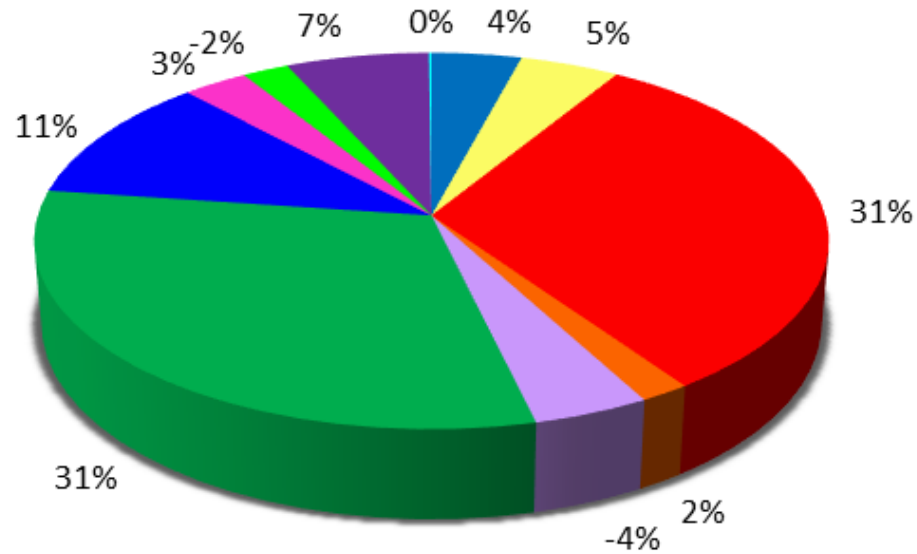


# The Spectrum of Council Responsibilities



# Net Budget 2022/23

(Gross spend less service specific income)

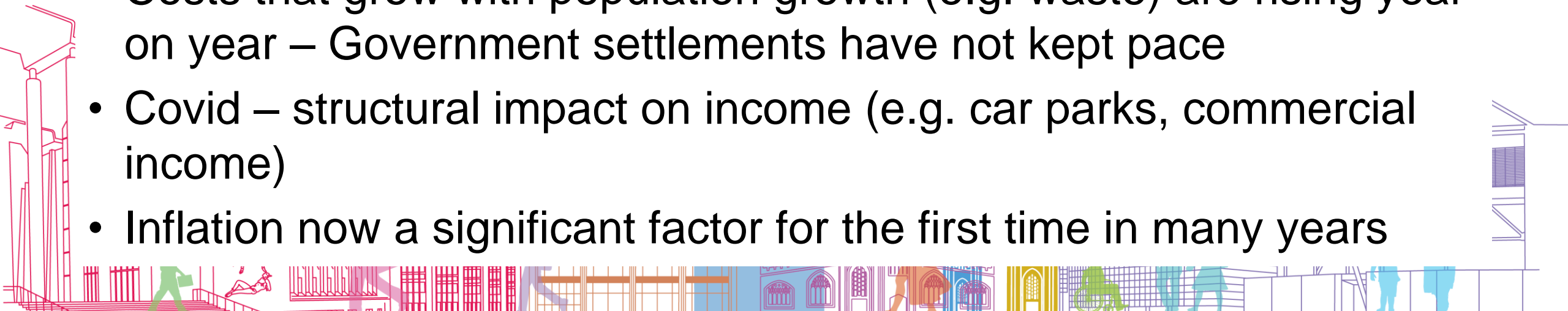


- Finance & Corporate Services
- Housing & Transformation
- Adult Social Care
- Business, Investment & Culture
- Contingency and Central Budgets
- Children and Young People's Services
- Streetscene & Regulatory Services
- Transportation & Highways
- Project Management and Property Services
- Education and Skills
- Public Health



# Financial Challenges & Pressures

- Like all councils we are leaner than previously but maintaining standards in all core services is difficult
- We deal with comparatively high number of looked after children and have needed to invest in recent years
- Adult Social Care pressures to reflect market costs – mostly grant funded but fair cost of care changes may affect the dynamic
- Costs that grow with population growth (e.g. waste) are rising year on year – Government settlements have not kept pace
- Covid – structural impact on income (e.g. car parks, commercial income)
- Inflation now a significant factor for the first time in many years



# Inflation

- Local Government pay negotiations ongoing
- 2% budgeted for 2022/23 but actual award is certain to exceed this
- Each 1% costs c£1.3m
- Living wage rise will be significant and cost increasingly more as it affects more grades up the local government pay spine
- News on energy increases & other contractual inflation received piecemeal
- Both pay inflation and non-pay inflation will cost several £ms which will be firmed up though the year
- Some one-off inflation contingencies have been set aside – 2022/23 may be manageable but future years contain greater threat



# Reserves

- Underlying revenue reserves have gone up by £18m (mostly ring-fenced Adult Social Care related)
- According to CIPFA resilience index Council balances place it at mid-way amongst similar authorities in terms of reserve levels
- Balances are set aside for areas of risk (insurance, business rates, property repairs, inflation, commercial risk)
- Also provided for commercial and regeneration projects supporting schemes such as precinct redevelopment, Friargate Hotel and Gigafactory in recent years
- Capital receipts of £37m to support strategic schemes





# Treasury Management

- Manages day to day cash requirement by investing or borrowing cash balances
- Ensures we can pay our bills and that any balances are placed securely
- Periodic decisions to take out long-term borrowing to fund capital programme expenditure
- Despite significant spend in recent years the combination of grant funding and reserve balances has enabled us to delay the need to borrow
- Borrowing ahead of need represents a ‘cost of carry’ – interest costs that can be avoided until a later date
- Attractive low long-term interest rates mean that we need to keep this under review



# Treasury Management Philosophy

- We continue to be advised by external experts
- Long-term relationship with Arlingclose – they have extensive knowledge of our circumstances
- Our approach is a prudent one – ensuring investment with secure counterparties and not seeking excessive returns
- Delaying decision to borrow long-term until modelling demonstrates the sweet-spot
- Will keep Cabinet Member informed as we explore future need to borrow (although this is essentially a function delegated to officers)

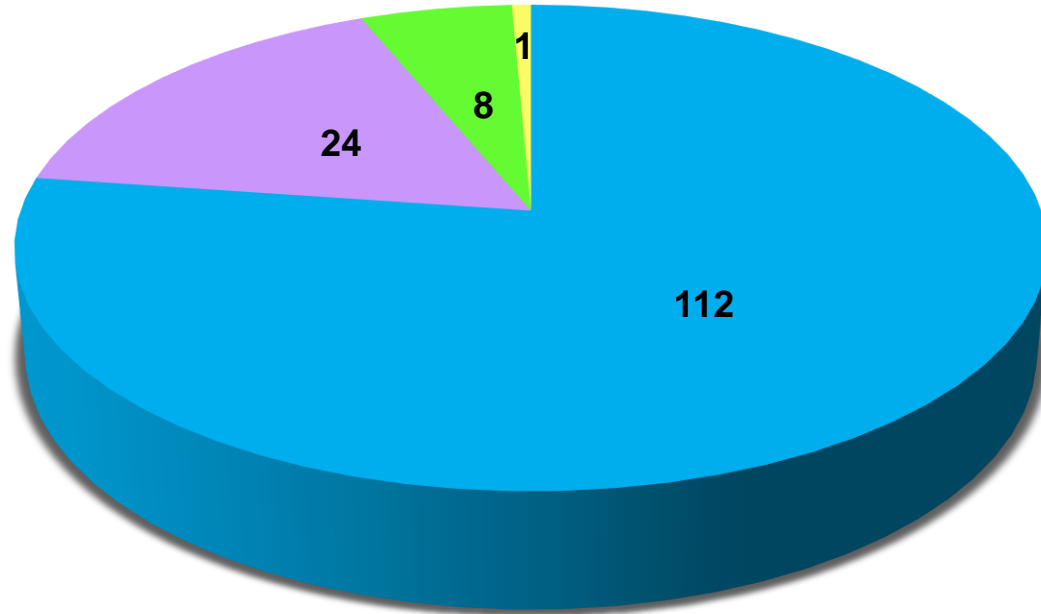


# Capital Funding

- Capital Receipts – Rely upon sale of Council land/property
- Some assets still available to sell but these are finite
- Grants – some annual funding available (schools, highways, Disabled Facilities)
- Prudential Borrowing – available for schemes that offer an income stream or savings
- The commercial return must cover the principal and interest cost of the scheme
- The Council can no longer pursue schemes that are purely for a commercial return if it wishes to maintain access to Government borrowing sources



# 2022/23 Capital Funding (£m)



- Capital Grants
- Prudential Borrowing
- Revenue/Reserve Contributions
- Capital Receipts



# Specific Grants

- Largest block in Council Funding analysis
- 85% by value relate to schools, Housing Benefit, Adult Social Care, Business Rates and Public Health
- These are determined by Government not bid-for
- Council continues to be ambitious in seeking bid-for grant resources as a means of taking forward revenue and capital projects
- Reserves set aside provide resource if necessary for grant match-funding



# Initial Budget Setting Process

- Officers identify financial position with known conditions/assumptions
- Ruling administration members provide initial policy steer
- Strategy to balance the budget agreed informally with Cabinet
- Officers work up options through Summer/Autumn
- Ruling administration receive progress updates through Autumn



# Political Process

- Options presented through Pre-Budget process – no decisions are finalised at this point
- All members are consulted leading into the Council's Pre-Budget and Budget stages before and after Christmas
- Cabinet approve options to be included in consultation
- Consultation with all members, Trades Unions, business community and the public
- Following consultation, final Budget proposals agreed by full Council
- Officers guide and recommend but members approve any final decisions

# Medium Term Budget Position

	2022/23 £m	2023/24 £m	2024/25 £m
<b>Total Budget Deficit/(Surplus)</b>	<b>0.0</b>	<b>16.9</b>	<b>21.2</b>

- £17m gap going into Budget process to be conducted through 2022
- Not unusual position at the start of the process
- Assumption sensitive – prudent view on overall resourcing





# Options For Tackling Financial Challenges

## Increase Income

- Raise Council Tax
- Increase Fees and Charges
- New Income Streams (commercialise)
- Natural Growth (dividends, property rents, Council Tax base)
- External Grant

## Reduce Spend

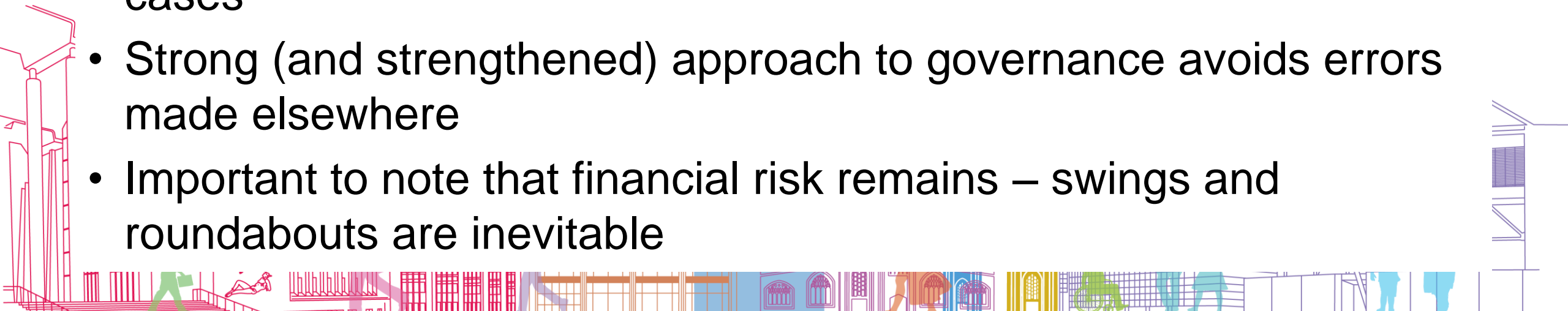
- Service Cuts
- Transformation Savings
- Technical Savings (pension contributions, capital financing costs)





# Council Relative Performance

- Proactive approach during 2010s placed Coventry in a better position than some councils
- More recent action to maximise opportunities and commercial approaches helps to manage financial pressures at the margins
- Broad range of approaches and company interests spreads risk
- Robust business cases and prudent assumptions adopted in all cases
- Strong (and strengthened) approach to governance avoids errors made elsewhere
- Important to note that financial risk remains – swings and roundabouts are inevitable



# Financial Information

- Regular reporting to Cabinet (budget & quarterly monitoring) and Audit Cttee (quarterly monitoring)
- Scrutiny consider (reserves, transformation, business rates, Covid, income generation)
- All reports contain financial implications identifying how implications should be funded – all public reports are available via the website
- Focus on areas of highest financial sensitivity

