
Cabinet

13th December 2022

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources - Councillor R Brown

Director Approving Submission of the report:

Chief Operating Officer (Section 151 Officer)

Ward(s) affected:

City wide

Title:

Pre-Budget Report 2023/24

Is this a key decision?

Yes

Cabinet is being recommended to approve, as a basis for consultation, the spending and savings and Council Tax proposals for 2023/24 and future financial years

Executive Summary:

This report outlines as a basis for consultation a set of new revenue budget proposals for 2023/24 to 2025/26 which represent changes to the Council's existing Budget. Consultation views are also sought on the potential level of Council Tax and Adult Social Care Precept increases for 2023/24. The final Budget proposals and the Council Tax and Adult Social Care Precept increases will be subject to Council approval in February.

The need to deliver the Council's overall future strategy continues to be the focus of the Pre-Budget proposals. The strategy is contained within the draft "One Coventry Plan" which sets out key priorities including: improving the economic prosperity of the city and region; improving outcomes and tackling inequalities within communities; and tackling the causes and consequences of climate change. Implicit within the plan is the Council's commitment to delivering a range of core services to everyone in the city. Following an extensive period of engagement, the Plan will be brought for approval in 2023.

The Council's financial plans are heavily dependent on both the allocation of Government grant resources and Government decisions which dictate councils' tax-based income streams. The turmoil in national politics through 2022 has made it more difficult than usual to anticipate the key decisions that the Government will make on these matters. As a result, a number of key elements of the Council's financial plans are subject to some uncertainty with a degree of risk that the position presented in this report could be subject to change once the details of the Local Government financial settlement are published. The Provisional Local Government Settlement for 2023/24 is

expected to be published in the week beginning 19th December, and this will provide a stronger indication of the likely position.

The Chancellor of the Exchequer set out the Government's Autumn Statement on 17th November 2022. The Statement provided a two year Department Expenditure Limit position for the Department of Levelling Up Housing and Communities (DLUHC) which indicates an increase in its budget compared with the previous position. The estimated impact for Coventry, if this movement was reflected in the resources made available to local government, is included within Appendix 1. The largest single change is the flexibility to use an estimated £5m of additional grant in 2023/24 which was earmarked previously by Government for Adult Social Care charging reforms that have now been postponed. Additional flexibility has also been provided with regard to the maximum permissible increase in Council Tax. As a result, this report recommends that the Council should consult on the basis of increasing the Adult Social Care Precept by 2%, and the Council Tax for other services by just under 3%, an overall combined rise of just under 5%.

The financial measures in this report include some service savings or additional income proposals although only a very small number affect services to the public. This has been achieved due to the combination of the overall impact of the Autumn Statement plus the proposed implementation of a range of technical measures. Depending on the final outcome of the Local Government Settlement this could include using one-off resources (in the form of reserves) to meet one-off pressures, if required, although no such measures are proposed at this stage. The Council is keen to avoid the need to reduce vital services and will seek to explore all possible avenues to do this. This report includes sufficient measures to set a balanced budget in 2023/24 albeit with financial gaps in future years.

A Medium Term Financial Strategy is intended to be presented alongside the final Budget Report in February. This will include the dramatically changed economic and financial landscape facing the Council and will include approaches informed by the draft One Coventry Plan. This may include: delivering some services flexibly across roles, services and organisations; investing resources with other public sector partners; and actively seeking new opportunities and cultivating new relationships. This is expected to form an increasing focus of the Council's activity in the future to improve the manner and cost effectiveness with which the Council is able to deliver and facilitate the provision of services to its citizens.

The proposals in this report are made as a basis for public consultation and the results of the consultation will be reflected in the final Budget Report in February and considered as part of the final decisions recommended in that report. Further work will be undertaken to confirm all the financial assumptions included, between now and the final Budget Report in February.

An outline of the resources and the spending and savings proposals are provided in Section 2 and on a line by line basis in Appendix 1. The Council's Council Tax assumptions and the basis on which it is consulting is set out within Section 2.

This report includes an indicative outline of the Council's prospective Capital Programme for 2023/24 based on current knowledge. This will be updated in the February Budget Report, reflecting the most up to date programme information available. The draft programme is based overwhelmingly on pre-existing decisions and patterns of expenditure.

Recommendations:

The Cabinet is requested to:

- 1) Approve as a basis of consultation: the revenue spending and savings options in Section 2 and Appendix 1 of the report; the broad Capital Programme proposals in sections 2.6 to 2.9

of the report; the approach in relation to Council Tax and the Adult Social Care Precept in Section 1.8 of the report, including a Council Tax rise of just under 3% and an Adult Social Care Precept of 2%.

List of Appendices included:

Appendix 1 – Pre-Budget Proposals and Financial Position

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?

No. The final budget proposals will be considered by Council following the consultation period.

**Report title:
Pre-Budget Report 2023/24**

1. Context (or background)

- 1.1 Proposals for the Council's 2023/24 Budget are set out in this report. The Government's Spending Review announcement on 17th November indicated an increase in the likely support for local government although at the time of writing the Council is still awaiting the 2023/24 Provisional Local Government Finance Settlement which will include details on a number of key funding announcements and will dictate the funding envelope within which the Council will need to operate next year.
- 1.2 The Provisional Settlement should be received in the week beginning 19th December followed by a final settlement announcement a few weeks into 2023. The starting point of the 2023/24 Budget process following setting of the 2022/23 Budget was an initial financial gap for 2023/24 of £17m, rising to £28m by 2025/26. These figures were based on broad assumptions about the Council's financial position, including the impact of the wider local government finance system.
- 1.3 In the period since February, work has been undertaken to update the assumptions that underpin this position with the underlying objective of meeting the immediate budget gap and to address the medium term financial position. Any changes to the existing position have been included within the Appendix to this report including the increase in inflationary pressures within the economy which has had a fundamental impact on the Council's financial position over this period.
- 1.4 Due to uncertainty surrounding a number of factors which influence the Council's financial position, the Medium Term Financial Strategy (MTFS) has been delayed. The Strategy will be considered as part of the final Budget Setting report in February. Prior to setting the final Budget in February, the Council will be required by law to establish the Council Tax and Business Rates tax-bases for 2023/24 and declare projected deficits or surpluses from previous years. Initial estimates of these tax-bases have been included in the financial projections within this report although it is expected that these will be refined in the final Budget Report.
- 1.5 As part of the Council's overall financial approach is its commitment to protect the most vulnerable citizens and to deliver a range of core services to everyone in the city. This has become increasingly difficult in recent years following reductions in resource levels for local government and made worse as a result of rising prices and their impact on the cost of living over the past 12 months. The combination of resource constraints and pressure on some aspects of Council services means that the challenge of balancing the Budget is as great as ever.
- 1.6 The financial position presented in this report includes: assumptions about the forthcoming Government settlement; anticipated additional costs from inflation and from financial pressures within some services; and a range of service and technical savings to help balance the bottom line position. All the changes to the previously approved Budget position are set out in Appendix 1. Most of the service savings are not ones which are likely to have a significant impact on front-line services but are either technical in nature or reflect activity designed to make the Council activity more cost effective and commercial. This continues what the Council considers to be a balanced and prudent approach to seeking commercial opportunities that dovetail with or are aligned to its existing activities.

- 1.7 The range of resource assumptions is informed to a degree by the 2022 Autumn Statement and also by the shape of the 2022/23 Local Government Settlement. These remain planning estimates only and are subject to confirmation by Government. The descriptions set out in Appendix 1 give an indication of the implications of each proposal.
- 1.8 This report proposes that the budget consultation is carried out on the basis that the Council will increase Council Tax levels by just under 5%, the figure which it has been indicated by Government will be the maximum amount allowable without triggering a referendum. This is made up of a 2% Adult Social Care Precept and an increase of just under 3% for other expenditure. It is possible that increases in the Police and Fire precepts could result in a total Council Tax rise above 5%.

2. Options considered and recommended proposal

- 2.1 The remainder of the report details the financial position facing the Council and the specific proposals put forward for consultation. These proposals are detailed within Appendix 1.

Revenue

- 2.2 After taking account of all Council approved decisions, the Council started the 2023/24 Budget process with a shortfall of £17m rising in subsequent years. Overall resources include the Government settlement, amounts in relation to Council Tax and Business Rates and several specific grants that the Government includes within its definition of Core Spending Power. Movements in this category include the following:
- The Autumn Statement has provided initial indications of additional resources for local government although the precise detail will not be known until publication of the Local Government Provisional Settlement. The changes listed in Appendix 1 make some assumptions about the level of additional funding and the types of area where this might be applied. These are planning assumptions which will be confirmed or amended when the Settlement is released. However, the overarching trajectory of additional resources to fund pressures within local government is expected to be confirmed at that point. The Council's current position includes an expectation of a broadly flat core settlement compared with 2022/23, continuation of the 2022/23 Social Care Grant (£4.3m), continuation of the 2022/23 Services Grant (£5.6m) and new grant resources of £5m for Children's and Adults' social care made available as a result of the delay to Adult Social Care charging reforms.
 - The Council's accumulated £12m Council Tax and Business Rates Collection Fund surplus has been planned to be applied on a prudent medium term basis including £6.4m in 2023/24. In addition a combination of Council Tax base growth, lower than previously planned downward amendments and lower than previously planned Council Tax Support levels within 2022/23 and in future years indicate further resources being available from the Collection Fund (£2m), dampened slightly by a lower collection rate experienced recently. A further £3.1m above previous planning assumptions will be generated if the Council approved a Council Tax rise of just under 5% discussed above.
 - The Council will receive funding equivalent to a Business Rates multiplier inflationary increase linked to September 2022 Retail Prices Index increase of 12.6%. This position indicated in the Autumn Statement should represent resources of c£11.7m above the Council's budgeted resource level.
- 2.3 A number of expenditure and income pressures have created a revised budget gap over this period. The most significant of these individual pressures are outlined below:
- After many years of relatively low levels of inflation the Council now faces the impact of inflationary pressures that have emerged in 2022/23 and those expected to continue in 2023/24. This includes a forecast reflecting the 2022/23 pay award

(averaging c6%) and provision for a pay award of 4% in 2023/24. It also includes the effect of underlying inflation on energy and a range of its externally procured costs and services.

- The Adults' Social Care financial model is updated annually for the forecast cost of in-house and external services for adults and older people requiring support including assumptions about the living wage and price rises within external social care contracts.
- There are cost pressures reflecting the need to ensure an adequate workforce level within Children's Services. These include extending the Social Worker Academy; establishment growth to meet the case-holding demand levels and clinical supervision programme; and market supplements where the Council's rates are no longer competitive with comparable Local Authorities.
- Further budget provision is required to meet the current financial pressure of delivering the Council's waste services on the existing basis including the permanent financial impact of lost contractual and other income within the commercial waste service.

2.4 There are service technical savings, the most financially significant ones of which are as follows:

- The Council currently provides revenue funding for capital expenditure programmes relating to highways repairs and Information and Communications Technology (ICT). It is legitimate to fund this spend from capital resources at least on a time-limited basis. The proposal here is to fund the expenditure from capital receipts in 2023/24, providing a temporary £3m revenue saving.
- The Council is forecasting that it will receive a further £2m of revenue generated through the Coventry and Warwickshire Business Rates Pool which is expected to continue for one further year.
- The costs of early retirement and redundancy decisions are paid for from an existing revenue budget of £1m. Additional coverage is provided from a reserve balance. It is proposed to reduce the revenue budget to zero for one year and to fund all one-off exit costs from the reserve.
- A strategic review of property is in the process of optimising income levels in the commercial portfolio and optimise/rationalise the wider operational estate as necessary.

2.5 The net result of these changes would leave the Council with a balanced budget position in 2023/24 pending confirmation of the Government Settlement and refinement of key technical areas of the Council's budget such as the Council Tax and Business Rates Collection Fund and estimates of inflationary pressures. There is a high degree of certainty that a balanced position will be achieved.

Table 1: Financial Position 2023/24 to 2025/26

	2023/24	2024/25	2025/26
	£000	£000	£000
Initial Budget Gap	16,883	21,240	27,949
Resources	(38,437)	(24,081)	(22,081)
Expenditure and Income Pressures	30,736	38,353	43,695

Directorate and Technical Savings	(9,214)	(5,198)	(7,304)
Budget Gap	(32)	30,314	42,259

Capital

- 2.6 The Council has a draft 5 year capital programme which totals nearly £352 million based on approved decisions and expected resource allocations. Of this, nearly c£120m is currently cash-flowed for 2023/24 taking into account an updated position for 2022/23.
- 2.7 The main components of the Council's provisional programme are set out below with the figures quoted representing the projected sums earmarked currently for 2023/24. The five year programme and an updated cash-flow position will be included in February's final Budget Report. The Programme includes:
- A strategic transportation programme in excess of £25m incorporating the City Region Sustainable Transport Settlement (CRSTS) programme, which is detailed in paragraph 2.8 below;
 - Continued delivery of the £31.5m Air Quality programme, which includes works at Junction 7 of the Ring Road and Spon End;
 - Completion of the £8.9m Binley Road Cycleway up to Walsgrave Hospital;
 - Commencement of delivering the Public Realm 6 programme;
 - City Centre Regeneration investment taking forward the city's Friargate District (building 2) and City Centre South plans;
 - Continued investment in the schools capital works including provision for the expansion of secondary places under their One Strategic Plan, to include the new SEND school proposal at Woodlands;
 - Continued investment in Adult and Children's Social Care in form of Disabled Facilities and Pathways to Care, along with the programme of vehicle replacement and ICT.
- 2.8 The CRSTS programme has been established by Government to provide a five year capital funding settlement for Mayoral Combined Authorities for transport, covering the period 2022-27. The West Midlands Combined Authority (WMCA) has been awarded £1.05 billion for the five year period. For Coventry, the following specific schemes are included in the WMCA's CRSTS programme as submitted to Government:
- Very Light Rail Regional Programme – total allocation of £71.7 million, of which £54.5million is specifically for the delivery of the Very Light Rail City Centre Demonstrator route within Coventry.
 - Park and Ride Estate Development – total allocation of £4.5 million which will include funding for the Tile Hill Station Park and Ride improvement scheme.
 - Foleshill Transport Package - £4.5 million allocation towards a package of transport improvements focussed on the Foleshill Road corridor.
 - Coventry South Sustainable Transport - £17 million allocation towards a package of transport improvements focussed on the London Road corridor supporting the Gigafactory and other developments planned for the Coventry Airport area and within the London Road corridor.
- 2.9 The draft programme will be subject to change between now and February with every expectation that some of the proposed expenditure will be shifted to later years. It is also important to be aware that some of the schemes involve a complex mix of funding sources, multi-partner delivery arrangements and challenging planning, technical and approval cocktails that do not always lend themselves to smooth project delivery progress. In overall terms, given the large amount of externally funded and driven proposals within the Council's

Capital Programme, it is very likely that a fair degree of flux will continue to be experienced in its cash-flow over the next few years.

3. Results of consultation undertaken

- 3.1 The proposals in the report are subject to statutory consultation requirements. The Council will communicate the report's key messages through usual consultation channels including social and digital media.

4. Timetable for implementing this decision

- 4.1 This report includes a set of draft budget proposals and does not authorise spending and savings decisions. Following a public consultation period, full Council will consider the final budget proposals in February to be implemented from 1st April 2023. An indicative profile is set out in Appendix 1.

5. Comments from the Chief Operating Officer (Section 151 Officer) and the Chief Legal Officer

5.1 Financial implications

Following the overarching position set out in the Autumn Statement 2022, the Council's financial circumstances for 2023/24 and beyond will be clarified by the fine detail that will be set out in the forthcoming Provisional Settlement. In order to provide a planning base, this Pre-Budget Report includes estimates drawn from the Autumn Statement although this contains some degree of uncertainty.

Developments in relation to the system of local government finance proposed previously continue to be postponed. This affects the future of Business Rates Retention, reform of the Local Government funding allocation mechanism and the future of Business Rates pools and pilots. Given the recent history of delay in these areas it is difficult to have any certainty on their delivery or timing.

A number of local authorities have reported financial difficulties through 2022/23 due to a combination of pressure from their underlying financial position, the impact of rising inflation levels and, in a few cases, challenges caused by a failure of commercial ventures. Coventry has continued to maintain a stable financial position through this period by following a range of sound financial management practices including: implementing medium term planning which is not over-reliant on reserve contributions; making budgeting decisions that recognise fundamental pressures in the financial position; maintaining reserve balances at a level that is sufficient to manage budget risks; addressing issues of governance in decision making in line with external advice; pursuing financial planning approaches which do not place an over reliance on speculative commercial activity but which do incorporate a balanced and forward thinking approach to delivery of modest commercial gains; and embarking on a programme of activity driven by the forthcoming refreshed One Coventry Council Plan which will include at its heart effective delivery of services for Coventry citizens.

It is becoming clear that despite a recent history of robust financial management, the current financial environment is causing greater financial pressure on the Council. The Council's Medium Term Financial Strategy (MTFS) has been delayed and will be reported to Cabinet alongside the final Budget Report in February. It will provide greater coverage of the Council's approach to financial planning and addressing current issues. These continue to be difficult

times for local authorities and although the Council should now be able to identify a balanced position for 2023/24, there are significant gaps remaining over the medium term. In terms of future years, the Council will continue to use prudent assumptions to provide budgeting realism and help to maintain a focus on sound budget setting decision making going forward.

The financial position in Appendix 1 shows a balanced financial position in 2023/24 but then gaps of £30m and £42m over the following two years. In the period between now and February, the Council will update its forecasts as a result of the Local Government Finance Settlement and a small number of technical areas such as the Council Tax and Business Rates Collection Fund and the Asset Management Revenue Account. It is very unlikely that these will cause the bottom line position to worsen. However, this does not mean that the Council can afford to be complacent or plan on an optimistic basis for the medium term. Any such approach would run the risk of leaving future financial gaps with insufficient time to identify ways of addressing them. Any improvement in the 2023/24 position will enable the Council to re-profile one-off (Collection Fund) resources, currently assigned to 2023/24, into future years in order to reduce the medium term financial gaps.

In addition, the Council will approve a refined One Coventry Council Plan in 2023 and embark on a programme of activity aimed at meeting the key objectives of the Plan. As part of this programme the intention will be to identify more effective ways to deliver services, adopt cross cutting approaches, work with partners and the community and focus on key delivery metrics. No savings have been assigned to the programme at this stage but it is envisaged that it will be a key part of enabling the Council to deliver its financial as well as its performance targets in future years.

The Council's recent revenue and capital budgets have maintained a strong focus on helping Coventry become a growing and more prosperous city, both to help protect and increase key tax revenue streams and reduce the reliance of some local residents on Council services. In addition, the Council has adopted more commercial approaches to identify new and increased revenue streams. This will continue to be important as part of a balanced strategy which pays due regard to the risks and limitations inherent within them. The view of the Chief Operating Officer (the Section 151 Officer) is that the risk of occasional negative financial consequences of taking such approaches is lower than the risk of not pursuing them at all and failing to attract the sustained financial benefits that they offer.

The indicative level of the Capital Programme set out above is only a guide at this stage although it continues to point towards a significant programme of spend on capital schemes across the city. Much of this spend will continue to deliver benefits to the local economy through infrastructure improvements and enhancement of the city's appeal to private sector investment. The medium term trajectory of the Capital Programme does not reflect the high levels of expenditure experienced in recent years and will depend on the success of future grant bidding processes and announcements in relation to the Government's levelling up agenda and Shared Prosperity Fund.

5.2 Legal Implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2023/24 budget by mid-March 2023. 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 the Council Plan (www.coventry.gov.uk/councilplan/)?

The Council, in common with all local authorities, will continue to be faced with challenging resource constraints although the precise nature and trajectory of this are not yet clear. Individual proposals set out in this report demonstrate the Council's commitment is seeking to minimise impacts on front-line services. The Pre-Budget position is presented within the context of the existing Medium Term Financial Strategy, which is aligned with the priorities set out for the City within the Council Plan. In this way Pre-Budget proposals are aligned to existing policy priorities.

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 new savings and income targets that will be included in the Council's bottom line budget position are unlikely to represent a significant risk of non-achievement. However, the continued budget gaps for future years will need to be addressed as part of the next budget process through 2023.

6.3 What is the impact on the organisation?

None of the new proposals set in Appendix 1 are likely to result in post deletions or service reductions. Measures for managing the financial gap based on current forecasts are set out in section 5 and any new savings proposals are unlikely to be put forward except as a last resort if the local government financial settlement is much worse than currently anticipated. Revenue gaps that need to be managed in later years mean that the Council will have to consider changes that might radically affect the way it works and the services it provides in the future.

6.4 Equalities / EIA

An initial assessment is that the savings contained in this year's Pre-Budget report are unlikely to have any significant equality impacts. This position will be reviewed ahead of the final budget proposals being put forward in the new year, and any associated equality analysis will be carried out accordingly.

6.5 Implications for (or impact on) Climate Change and the environment

No impact at this stage although climate change and the environmental impact of the Council's decisions are likely to feature more strongly in the future.

6.6 Implications for partner organisations?

There are little or no direct implications for partner organisations in the proposals although the One Coventry Plan may affect the way that the Council and its partners work together in future.

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