COVENTRY CITY COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2023-26

1. EXECUTIVE SUMMARY

1.1 This Medium Term Financial Strategy (MTFS) 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 Strategy is consistent with the forthcoming 2023/34 Budget Setting Report. The purpose of the MTFS is to describe the environment within which the Council operates and bring together resource and cost projections to explain how the Council plans to address its funding gap, whilst retaining focus on the strategic priorities.

1.2 An introduction and the policy framework provided by the existing draft One Coventry Plan is provided in **Section 2**. This sets out how the Council is focused on increasing the economic prosperity of the city and region, improving outcomes and tackling inequalities within Coventry communities and tackling the causes and consequences of climate change.

1.3 **Section 3** explains the national financial context and the medium term uncertainty that exists around local government funding. Although recent Government announcements broadly consolidate the existing level and pattern of local government resources there is significant uncertainty over the future path of funding.

1.4 The key factors that the Council has identified as influencing current and future demand for Council services, are outlined in **Section 4**. These continue to include recurrent challenges such as sustained demand for social care as a result of the ageing population and increasing numbers of children with complex care needs. In addition, councils are faced with increasing demand for support from citizens driven by current national financial challenges, the greatest inflationary pressures witnessed in a generation and the consequent cost of living crisis.

1.5 **Section 5** outlines the Council's financial planning context and assumptions which draw on the information above and provide the foundations of the medium term financial position. This includes the key spending forecasts, inflation expectations and planning assumptions in areas such as Council Tax.

1.6 The Council's response to the current financial gap is set out in **Section 6**. This sets out the Council's approach to how it will seek to balance its Budget in future, subject to future Budget decisions and other major policy approvals.

2. INTRODUCTION AND POLICY FRAMEWORK

2.1 The strategic direction for the Council is set by the One Coventry Council Plan (the One Coventry Plan or OCP). The existing plan is currently being refreshed and has been subject to a period of comprehensive engagement. It is anticipated that the updated plan, currently in draft, will be approved in first half of 2023.

2.2 The draft OCP sets out a vision for One Coventry of "working together to improve our city and the lives of those who live, work and study here".
The draft Plan describes outcomes for:

- a city with a strong and resilient economy, where inclusive growth is promoted and delivered, businesses are enabled to innovate and grow, and new local jobs are created.

- a city where our residents get the best possible start in life, experience good health and age well, in a city that embraces diversity, protects the most vulnerable and values its residents and communities.
- a city, that leads the way and invests in the green industrial revolution. Ensuring the future well-being of our residents by embedding environmentally friendly behaviours and exploring opportunities to lessen the pressures caused by climate change.

2.3 The OCP is clear that there are fundamental conditions that need to be in place in order to achieve these outcomes. These are that the Council has a strong and sustainable financial position, with resources and assets that are aligned with our priorities and that it plays a key role as a civic leader, working in genuine partnership with local residents, communities and partners. Central to the achievement of the aims set out in the OCP, a One Coventry approach will focus 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.

2.4 The OCP clearly sets out the need for financial resilience in order to achieve its objectives. It is also necessary therefore, for the MTFS to reflect the principles, visions and priorities set out for the City within the OCP. The MTFS complements the Council Plan by defining the financial framework within which these priorities will be delivered. It should also ensure through appropriate resource allocation decisions that it supports the plan, alongside the fundamental aims of delivering a balanced budget and enabling the Council to fulfil its statutory duties.

2.5 The Council’s resources will continue to be focused on activities which contribute most to improved outcomes for local people. In order to deliver the OCP, the Council is refreshing its approach incorporating a series of workstreams across its activities with a focus on partnership working. This work is at an early stage and 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.

2.6 The OCP sets out the Council's role as a partner, enabler and leader and the importance of partnership working to the delivery of the Plan. This approach is equally important to delivery of the MTFS and incorporates elements such as: responding to national and regional policy for local government; leading on innovative approaches to working differently; acting as a civic leader, in collaboration with local residents, communities and partners (public, private, and voluntary and community sectors); working with residents and communities to find solutions to challenges faced in local neighbourhoods; leading and co-ordinating Coventry's response on how the city tackles climate change and the necessary transition to a zero-carbon economy; and leading the delivery of aspirational investments through regional partnerships such as development of the Gigafactory in Coventry. These approaches are set out more fully within the OCP.

2.7 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 the Friargate regeneration district, the Very Light Rail project and the development of City Centre South. Further work continues to improve the attractiveness and desirability of the city as a venue. 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 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. A comprehensive range of factors is set out in full within the Council's Annual Plan Performance Report 2021/22.

3. FINANCIAL CONTEXT

3.1 Coventry City Council's revenue spending is funded from four main sources: Council Tax, Business Rates (net of Government tariff), specific grants and other income in the form of fees, charges, dividends and interest. Some councils also receive Revenue Support Grant but as part of the West Midlands Business Rates Pilot, Coventry does not receive Revenue Support grant and instead retains a greater share of the business rates income it collects. The following table summarises how the Council's 2022/23 revenue budget was funded.

Table 1: Funding of 2022/23 Gross Budget

	2022/23 £m	**2022/23 £m**
Council Tax Requirement	(153.4)	
Business Rates Income (net of tariff)	(84.0)	
Funding of Net Budget		**(237.4)**
Specific Grants	(402.7)	
All Other Income	(108.7)	
All Other Funding/Income		**(511.4)**
Total Funding of Gross Budget		**(748.8)**

Business Rates

3.2 The national system of retained Business Rates allows local government to retain 50% of business rates income with the remainder payable to central government for redistribution through government Revenue Support Grant. However, authorities that are part of Business Rates Pilot schemes retain a greater share of Rates. Along with the other 6 West Midlands authorities, Coventry is a member of the West Midlands Business Rates Pilot with all member councils retaining 99% of the business rates collected (with 1% going to the West Midlands Fire and Rescue Authority). The West Midlands Combined Authority receives a payment from each authority as a proxy for a share of the growth in business rates income.

3.3 For several years the government has discussed updating the assessment of needs and resources used to determine individual authority funding allocations via retained Business Rates and Revenue Support Grant. The current methodology and much of the data that feeds it is now significantly out of date and results in a perceived unfair distribution of resources. However, recent announcements have indicated further delay in reform of the system which means that this is not likely to be implemented until 2025/26 at the earliest. Until such reform is designed and published it is not possible to predict how it will affect individual authorities. Due to the significant growth experienced in Coventry and the demographic make-up of its population, the local expectation is that system reform should result in a greater share of resources for the city. The updated mechanism might also be expected to reflect the government's Levelling Up ambitions with relative needs and resources given more priority in the new distribution. It is hoped that the effect will be to shift resources towards councils such as Coventry which are considered to be relatively more deprived than many others. Given the current delay in system reform, it is reasonable to assume that Business Rates Pilots will continue for at least the next two financial years.

3.4 Since the introduction of business rates retention in April 2013, the government has made a number of policy announcements affecting the amount of business rates that local authorities can collect, such as increasing the amount of relief available to certain businesses and restricting the increase in the multiplier. In order to protect councils from the impact of these decisions, the government compensates local authorities for the resulting cumulative loss in income through specific non ring-fenced grants.

Council Tax

3.5 Council Tax remains the most significant source of Coventry's net income, funding 65% of the net revenue budget in 2022/23. The Council has experienced a sustained period of growth in the Council Tax base for some time and the MTFS assumes this will continue. The Provisional Settlement has confirmed that the referendum threshold for increases in core Council Tax will be 3% in 2023/24, with a further increase of up to 2% allowed in respect of the Adult Social Care precept. These increases are also expected to apply for 2024/25. After this an underlying expectation of 2% Council Tax rises and no precept will be assumed. The level of increase will be determined by full Council through the budget process. For illustrative purposes, an increase of 1% in Council Tax equates to c£1.5 million of income.

Specific Grants

3.6 The Council receives a very significant level of specific revenue grant funding (£403m budgeted in 2022/23) with further grants often announced through the year. The vast majority of these are provided by Government with most of this being allocated for specific and ring-fenced purposes. By value, the most significant elements relate to Dedicated Schools Grant and Pupil Premium (£180m), Housing Benefit Subsidy (£69m) and a combination of funding for Adult Social Care funding (£45m). Other major elements were budgeted for Business Rates (£25m), Public Health (£23m), Private Finance Initiative schemes (£9m) and Adult Education funding (£5m).

Fees and Charges

3.7 The Council budgeted to receive £109 million in fees, charges, dividends, and interest in 2022/23. Such income supports the expenditure of individual service areas. Increases in the fees and charges set for individual services vary depending on any statutory requirements, specific market considerations and also on the objectives a particular service may be trying to achieve. Overall, there is an expectation that traded services will seek to recover the full cost of services.

3.8 Income from fees and charges was severely affected by the restrictions imposed as a result of the coronavirus pandemic. Although many of these restrictions were lifted during 2021/22 some income streams have been slow to recover in areas such as car parks which may have suffered a potentially permanent structural reduction. Other areas affected include property rents. The impact of inflation, current national financial challenges and the impact on the cost of living for individuals, businesses and other organisations is likely to have an impact on the Council's ability to generate income from fees and charges over the short to medium term as well as the level of dividends generated by Council owned companies and the repayment of loan principal and interest from organisations to which the Council has made loans.

Financial Outlook

3.9 The Autumn Statement 2022 and the 2023/24 Provisional Local Government Financial Settlement have confirmed the existing level and pattern of local government resources for 2023/24 and provide an indicative picture for 2024/25. Other expected changes to previous assumptions have been set out in the Pre-Budget Report 2023/24 and all these changes will be confirmed in the final Budget Report. According to Government figures, although Coventry Core Spending Power per dwelling in 2023/24 will be 2.9% greater than 2010/11 this still represents a 24.1% real-terms reduction over this period.

3.10 The anticipated changes to how local government funding is allocated described above and the uncertainty over the future path of the Government's Levelling Up agenda make it difficult for the Council to determine medium-term financial plans. In addition, the local government sector has been affected by resource constraints imposed across the whole of the public sector whilst there are also limitations to the funding that local authorities can raise locally through Council Tax and fees and charges. Demographic pressures continue to increase with the legacy impact of Covid-19 and subsequent cost of living issues affecting individuals' experience and expectations of when local authorities and Government will intervene to protect them. All of this creates a very challenging environment in which councils need to manage limited resources and increasing expenditure pressures.

3.11 Whilst it is a reality that public sector finances are always faced with the need to balance budgets under resource constraints, it is the severity of these constraints that is 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 councils struggle to set balanced budgets with insufficient reserves to manage the transition to greater financial stability. It remains essential that Coventry continues to observe sound financial management principles, strict budgetary control practice, prudent budget setting and a level of reserve balances that provides adequate protection against financial risks.

3.12 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. As a result, the rules governing the Public Works Loans Board – the Government's main vehicle to provide long-term lending to local government – have changed in order to limit investment in commercial assets where this has the prime purpose of achieving a financial return or yield.

4. SERVICE DEMANDS AND DEVELOPMENTS

4.1 Local authorities have faced a series of financial and service pressures over recent years incorporating significant central government funding reductions, increasing service demand particularly across social care services, knock-on impacts from the UK's exit from the European Union, management of the local impacts of COVID-19 and more recent severe inflationary pressures across virtually all areas of its budget.

4.2 Inflation

4.2.1 Like all organisations and individuals, the Council has been affected by above normal inflationary pressures over the past year and is expecting this to continue for the remainder of 2023 at least. This has been caused by a range of over-lapping factors including but not limited to underlying increasing energy prices, some labour shortages in the UK jobs market, the Russian invasion of Ukraine, the effect of the UK's exit from the European Union (EU) on migration and trade with the EU and the international responses to these that have affected the global economy.

4.2.2 The Consumer Price Inflation rate rose as high as 11.1% in 2022 with this being reflected to different extents across a wide range of Council contracts including energy and high value social care contracts. The inflation rate was also instrumental in the agreement of a higher than planned pay award agreed for most local government employees which averaged c6% for 2022/23. Given that the Council's budget was put together in late 2021 (and agreed in February 2022), the full extent of these financial movements was not known at that time and not factored into the Council's 2022/23 budget. As a result, the budget process for 2023/24 has had to factor in a significantly higher base position, reflecting inflationary rises for both 2022/23 and 2023/24. The latest estimate is that this has added c£20m to the Council's cost base above previously budgeted amounts.

4.3 Adult Social Care

4.3.1 The financial cost of delivering Adult Social Care is driven by a number of factors and is heavily influenced by changes in Government policy and the numerous funding streams identified for Adult Social Care. In establishing the budget for Adult Social Care within the MTFS the following factors are taken into consideration.

4.3.2 In September 2021, the Government launched "Building Back Better: Our Plan for Health and Social Care" which outlined plans 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. Within the overall resourcing package, the Government identified £5.4bn over 3 years, to be invested in Adult Social Care to meet the costs of implementation. The additional cost pressure locally of the reforms was unknown whilst the Government continued to develop the guidance and expectations further.

4.3.3 Following progress of some aspects of the reforms during 2022/23, and concerns raised by local government, it was announced in the Autumn Statement 2022 the rollout of a large part of these reforms due in October 2023, would be delayed until October 2025. The funding identified has been switched to support significant inflationary pressures driven by a substantial increase to the National Living Wage in 2023/24, alongside high levels of inflation within other costs across Social Care provision.

4.3.4 Whilst capacity and market sustainability pressures are a long standing issue in Adult Social Care, these have been exacerbated by additional costs during and following the COVID pandemic and significant difficulties in recruitment and retention. With the large increases in inflation seen during the 2022/23 year which are expected to continue for the immediate future, this adds further pressure to a market already heavily under pressure.

4.3.5 Alongside the pressures outlined above, whilst Coventry is not yet seeing any significant increases in the number of referrals to Adult Social Care, the complexity of demand is increasing alongside unprecedented difficulties across the health sector particularly in relation to hospital discharge. The long-term impact on Adult Social Care following the pandemic and/or further future variants may not yet have been fully realised and is difficult to assess.

4.3.6 2022/23 saw the implementation of Integrated Care Systems and the Coventry and Warwickshire Integrated Care Board, which was a significant structural change to the operation of health services locally. As the new system develops this will impact on the delivery of Adult Social Care that supports the health system.

4.3.7 The Health and Care Act 2022 introduced a duty for the Care Quality Commission (CQC) to assess local authorities' delivery of social care services, empowering the Secretary of State for Health and Social Care to intervene where there is a risk of failure to meet social care duties. These inspections are expected to begin to take place from Autumn 2023.

4.4 Children's Social Care

4.4.1 The Council has experienced cost pressure over a number of years driven by high demand in social care services for children and young people. The need to safeguard vulnerable children and young people remains a fundamental priority for the Council and it has continued to make the necessary budgetary provision through this period.

4.4.2 The number of looked after children in the city rose from 648 in March 2018 to 756 children at the end of December 2022 (over 16% growth in less than 5 years), reflecting a steady increase in the volume of individuals being protected. In addition, there is an observed increase in the complexity of care needs leading to a consequent increase in the average cost of each individual placement. The availability of placements able to support these complex needs has come under increased pressure on a national basis throughout and since the Covid pandemic with a resulting impact on price. Unit costs continue to rise, from an average residential unit cost of £3,031 per week in 2017-18 to an average residential cost of £4,914 per week in 2022-23, an increase of 62% in the last 5 years. This pressure continues to escalate, with the average cost of new placements being made this year rising to over £8k per week. The cumulative annual commitment of the Council's 10 highest costs children's placements currently exceeds £5.3m.

4.4.3 The rise in the number of local children looked after has placed an increased burden on social work staffing capacity and case holding. Children's Services has experienced significant workforce pressures, with high staff turnover and a high level of vacancies, caused by a shortage of social workers to meet the increased demand for children's services, accentuated by difficulties in recruiting agency staff to cover those vacancies. The strategy to stabilise the workforce includes extending the Social Worker Academy, establishment growth to meet the case-holding demand levels and a clinical supervision programme. The workforce strategy also includes evaluating career pathways to promote staff development and retention as well as consideration of market supplements and job re-evaluations where the Council's rates are no longer competitive with comparable Local Authorities. This has resulted in a need to increase employee budget costs through the Council's Budget process.

4.4.4 Given the pattern of looked after children numbers and socio-economic trends in recent years it is difficult to predict when or if the rise in the number and cost of cases will level out. This will continue to be an area that is kept under close scrutiny both as an individual service and as part of wider strategies to increase the economic prosperity of the city and reduce the harmful effects of issues such as deprivation, poor education attainment and poor levels of public health in parts of the city.

4.5 Education Services and Special Educational Needs & Disability (SEND)

4.5.1 National policy changes such as reduced council school improvement duties and increased attendance duties, coupled with funding reductions for central education functions continues to put pressure on the Central Block of the DSG. The Council currently anticipates further reductions in central DSG funding over the next 5 years. These cuts will need to be managed through service reform/redesign as far as possible, although this may not be sufficient and may necessitate further decisions on the future of these services.

4.5.2 In line with national trends, the number of SEND pupils within Coventry continues to grow. This results in a continuing increase in the number of commissioned special school placements, and consequently more children and young people requiring specialist transportation to school, including transport to schools outside of the city due to local special school provision being full. Additionally, there have been increases in SEND transport demand due to more post-16/19 students remaining in education.

4.5.3 The High Needs Block of the Dedicated Schools Grant (DSG) continues to be an area of pressure. National SEND spending has increased significantly in recent years with a number of authorities across the country now having DSG deficits. The main factors underlying this position stem from the consequences of reform including the expanded offer, rising demand and shortage of specialist provision. Ordinarily, authorities would be responsible for meeting any deficit position from other council funding, but currently due the significance of the issues in this area the Treasury have enacted a national statutory override ringfencing the DSG position away from LAs until March 2026. Coventry currently has a DSG surplus but in-line with national trends it is continuing to experience increasing pressure on its SEND budget and is likely to see a slow-down in funding increases. It is therefore key that the Council monitors the position and manages resources effectively to ensure that it remains within funding allocations as far as is possible.

4.6 <u>Other Services, Demographics and the Cost of Living</u>

4.6.1 A combination of events including the legacy impact of the coronavirus pandemic, the impact of inflation on household incomes and effect of financial uncertainty on all sectors, has resulted in an increased demand for Council services. As well as the actual impact on the financial circumstances of individuals, businesses and third sector organisations, the Covid and post Covid period has changed some expectations on the timing and level of Council interventions in some service areas.

4.6.2 Compared with the national average, Coventry’s population has increased at a faster rate over recent years and has a lower age profile. Such growth puts considerable pressure on transport, housing, education and public service infrastructure and there is a shortage of housing and affordable homes across the city. A range of demographic and socio-economic trends, in part linked to the city’s steady population growth, has continued to cause increases in demand or expenditure pressures in areas such as waste collection and disposal and the costs of housing homeless individuals and families in addition to some of the social care and education related changes. These have required additional budget allocations which can be expected to continue in future years and have prompted policy responses in areas such as housing and recycling facilities to help manage costs going forward.

4.6.3 The Council’s public health services are aimed at improving well-being and reducing health inequalities across the city and maximising the wider work of the Council to improve the health of its residents. This includes universal health, wellbeing and preventative services, such as health visiting and school nursing, and a range of more targeted services such as drug and alcohol services, domestic violence and sexual health plus statutory responsibilities around health protection. Funding for Public Health activity is primarily provided from within the ring-fenced Public Health Grant from Government and the Council's financial planning assumption is that this will continue going forward.

4.6.4 Through the Covid-19 pandemic, demand increased for services supporting communities directly and in partnership with the voluntary sector. The continued difficult economic circumstances for many resulting from trends including changes to the Government's welfare reforms and more recently the impact of energy price rises, and general inflationary pressures, have affected the number of people seeking to access local government and voluntary sector services. A greater degree of intervention by the Council and specific Government support in some areas over this period have probably changed perceptions and increased expectations about the timing, nature and level of support that may be available in times of economic hardship compared with those that existed previously.

4.6.5 The role of regeneration, economic support, skills and employment investment, remains paramount particularly in the light of the importance of business rates to the Council's resource base and current financial challenges facing local economies and citizens. The progress of national developments such as the Levelling Up Fund is critical in addressing these needs. This £4.8 billion government scheme is designed to invest in infrastructure that improves everyday life across the UK. Councils were invited previously to submit bids to fund town centre and high street regeneration, local transport projects, and cultural and heritage asset. However, the City Council's three bids submitted ahead of the January 2023 approval announcement were all turned down, with schemes from elsewhere across the country being favoured. This increases the focus on other steps being taken by the Council, 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.

4.6.6 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 an updated Climate Change Strategy which is currently under review.

4.6.7 The Council is obliged to work towards ensuring that its pension liabilities within the West Midlands Pension Fund are funded. The Council's currently reported funding level stands at 107% indicating that the Council has a valuation basis surplus. Its contributions to the pension fund are 22.9% as a proportion of the superannuable payroll in 2022/23 and may reduce marginally following the draft results of the recent triennial review. The Council will continue to work with the West Midlands Pension Fund to agree employer pension contributions that strike a balance between maintaining the funding level over the long-term and maintaining sustainability and affordability in relation to the Council's overall financial position.

5. FINANCIAL PLANNING CONTEXT AND ASSUMPTIONS

5.1 Revenue Position

5.1.1 The initial revenue position for the Council's MTFS is the forecast multi-year revenue programme carried forward from 2022/23 including all approved future years' budget decisions known at that time plus the provisional changes set out in the 2023/24 Pre-

Budget Report in December 2022. The current planning process started with significant forecast deficits from 2022/23 although the latest position indicates that 2023/24 is now balanced.

Table 2: Draft Financial Position 2023/24 to 2025/26

	2023/24 £m	2024/25 £m	2025/26 £m
Position Carried Forward from 2022/23	16.9	21.2	27.9
Resources	(38.4)	(24.1)	(22.1)
Expenditure and Income Pressures	30.7	38.4	43.7
Directorate and Technical Savings	(9.2)	(5.2)	(7.3)
Budget Gap	**0.0**	**30.3**	**42.3**

5.1.2 The Pre-Budget Report, considered by Cabinet in December 2022, 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 3 the forecast outturn for 2022/23 was a net overspend of c£8m. Significant pressures exist across several areas including Waste Services, Children's Services and as a result of inflation.

5.1.3 Moving into the next phase of financial planning the initial position shows forecast gaps rising to £42m in 2025/26. This will be updated within the final Budget Report which will be presented to Cabinet and Council in February 2023. It is likely that the indicative information provided within the Provisional 2023/24 Local Government Financial Settlement will result in a more favourable position in future years than shown above although sizeable financial gaps are still expected. Coventry faces similar challenges and major policy choices to many other authorities and the size of the gap makes it inevitable that a range of approaches are needed in order to balance future years' gaps. These are considered in Section 6 below.

5.2 Reserves

5.2.1 The Council holds significant reserves which need to be maintained at a sufficient level to protect the Council against risk and to meet the needs of the organisation. The Council maintains a Working Balance of £10.3m which is held to cushion the impact of uneven cash flows or unexpected events. All of the remaining balances are held as specific reserves which are earmarked for a particular purpose.

5.2.2 The Council's specific reserves include **revenue reserve balances** of £130.2m (this excludes the Working Balance); £36.7m of **capital reserves** earmarked to fund major capital schemes; £31.0m of reserve balances belonging to or earmarked to support **schools**, and £18.6m 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 2022 was:

Table 3: Reserve Balances as at March 2022

	1st April 2021 £000	(Increase)/ Decrease £000	31st March 2022 £000
Council Revenue Reserves			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(13,331)	(14,955)	(28,287)
Covid 19 Government Funding	(7,558)	(3,423)	(10,981)
Private Finance Initiatives	(10,994)	1,368	(9,626)
Early Retirement and Voluntary Redundancy	(9,323)	0	(9,323)
Corporate Priorities (2020/21 Outturn Underspend)	(9,225)	527	(8,698)
Potential Loss of Business Rates Income	(7,735)	0	(7,735)
Innovation and Development Fund	(5,549)	50	(5,499)
Reset and Recovery	(5,467)	0	(5,467)
Air Quality Early Measures	(4,517)	284	(4,232)
City of Culture Commonwealth Games Readiness	(4,964)	1,060	(3,904)
Management of Capital	(4,028)	618	(3,410)
Commercial Developments	(3,750)	402	(3,348)
Public Health	(1,013)	(1,456)	(2,469)
Friargate Lifecycle	(1,378)	(217)	(1,594)
Insurance Fund	(2,049)	552	(1,497)
Corporate Property Management	(1,394)	25	(1,369)
Children's Social Care Family Valued Programme	(639)	(590)	(1,229)
Adult Education Income	(1,005)	(82)	(1,086)
Other Directorate	(10,790)	(3,827)	(14,617)
Other Corporate	(7,524)	1,681	(5,843)
Total Council Revenue Reserves	**(122,511)**	**(17,982)**	**(140,493)**
Extra-Ordinary Item - Covid Business Rates Relief	**(48,302)**	**29,667**	**(18,635)**

Council Capital Reserves		0	
Useable Capital Receipts Reserve	(24,736)	(6,451)	(31,187)
Capital Grant Unapplied Account	(1,828)	(3,641)	(5,469)
Total Council Capital Reserves	**(26,564)**	**(10,092)**	**(36,656)**
School Reserves			
Schools (specific to individual schools)	(22,315)	(2,750)	(25,065)
Schools (related to expenditure retained centrally)	(4,806)	(1,121)	(5,927)
Total Schools Reserves	**(27,121)**	**(3,870)**	**(30,991)**
Total Reserves	**(224,498)**	**(2,278)**	**(226,775)**

5.2.3 The Council will seek to optimise the use of its reserve balances in delivering priorities, making decisions on a corporate basis and observing opportunities to maintain an appropriate balance between short term expenditure and long term investment.

More specifically, the approach will be informed by:

- The need to maintain working balances to mitigate the key risks faced by the Council including those expressed in the Council's corporate risk register.
- The requirement to hold some earmarked reserves to protect against specific known or potential liabilities but kept to a minimum consistent with adequate coverage of those liabilities and reviewed annually as part of the budget process.
- A general assumption, to be applied flexibly subject to specific financial circumstances that one-off resources will not be used to support on-going expenditure.
- The awareness that there is an opportunity cost of holding reserves (in that these funds cannot then be spent on anything else) – it is therefore critical that reserves continue to be reviewed each year to confirm that they are still required and that the level is still appropriate.

5.2.4 There are no plans to use working balances over the period covered by this strategy and as a result the anticipated balance at the end of each year is expected to remain at c£10m throughout.

The Council also maintains capital reserves:

- The capital receipts reserve holds all receipts from the disposal of non-current assets, which can only be used to finance new capital investment or to repay debt.
- The capital grants unapplied reserve holds capital grants without conditions, or where conditions have been satisfied but the grant has yet to be used to finance capital expenditure.

Considering the risks outlined above, the current level of reserves is considered adequate in the view of the Interim Chief Executive (Section 151 Officer). However, the scope to use reserves within the boundaries of the MTFS framework is significantly restricted.

5.3 Capital

5.3.1 The current capital programme approved in February 2022 includes the following expenditure profile:

Table 4: Capital Expenditure Profile Per 2022/23 Budget Report

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Capital Programme Spend	**145**	**75**	**24**	**103**

This information will be updated within the forthcoming 2023/24 Budget Report.

5.3.2 The existing programme provides for several large investment schemes including the second phase (Building 2) of the Friargate Business District and the redevelopment of a large part of the City Centre through the City Centre South scheme and major investment in the city's highways, transportation, and public realm infrastructure. This includes the completion of the A46 Stoneleigh Junction as part of the Strategic Transport Investment Programme and the delivery of the A45 overbridge infrastructure at Eastern Green from the Housing Infrastructure Fund (HIF). A package of measures to ensure Air Quality compliance for the city includes delivering works within the Arches Spon End Pinchpoint scheme and at the Ring-Road Junction 7. Work continues delivering the Binley Cycleway from the City Centre to Walsgrave Hospital and there are a range of other projects that complement this package of measures by encouraging the uptake of zero emission vehicles and installation of electric vehicle charging points across the city. In addition, work continues to deliver the Education One Strategic Plan and investment in secondary school provision.

5.3.3 The West Midlands Combined Authority (WMCA) was formally established in June 2016 with the responsibilities of the Integrated Transport Authority and the aim of maximising investment to drive growth and more efficiently co-ordinate services across the sub-region. The Authority is responsible for helping to deliver a major programme of capital expenditure in partnership with its constituent members – the 7 West Midlands local authorities. Of the previously indicated in-principle £438m WMCA contribution to the Council's Capital Programme, £245m has been secured at this stage including funding towards the Friargate regeneration district and City Centre South. Any future contributions will effectively be dependent on future WMCA resourcing decisions although there is significant doubt over the ability to secure these contributions and they have not been built into the Council's Programme at this stage.

5.3.4 In addition, the West Midlands Combined Authority (WMCA) City Region Sustainable Transport Settlement (CRSTS) programme has been established by Government to provide a five year capital funding settlement for Mayoral Combined Authorities for transport totalling £1.05bn, covering the period 2022-27. Coventry's CRSTS programme of £110m includes allocations for delivery of the Very Light Rail City Centre Demonstrator route within Coventry, the Tile Hill Station Park and Ride improvement scheme, a package of transport improvements focussed on the Foleshill Road corridor and 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.

5.3.5 Funding for the non-WMCA funded capital programme consists primarily of a combination of specific capital grants, prudential borrowing, revenue funding and capital receipts from the sale of council assets. Delivery of the programme requires the effective prioritising and management of capital resources and investments, taking into account the level of funding both from government and future capital receipts and the identification of self-funded business cases that can justify the use of prudential borrowing to pay for schemes.

5.3.6 The Council will continue to seek to maximise the amount of funding identified in order to deliver its priorities. It will actively seek external grant funding opportunities both on a stand-alone basis and in partnership with other Councils and partners including the WMCA. It will seek to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets. This will work within the limitations on its ability to purchase assets, and specifically not to do so purely for commercial return.

5.3.7 Where prudential borrowing is identified as a potential source of funding for capital projects, it is essential that funding is identified to pay the principal and interest costs of the borrowing. This can come either from new income generated from the project, service savings delivered as a result of the investment or an existing revenue budget which can be switched to this purpose as a result of the expenditure made. A clear business case must be provided which incorporates these elements and which will form part of any approving report.

5.3.8 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 will not be the case on a permanent basis. 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.

5.4 <u>Risk Management and Financial Resilience</u>

5.4.1 In setting the revenue and capital budgets, the Council takes full account of the known key financial risks that may affect its plans in setting its revenue and capital budgets. The corporate risk register is reviewed by the Strategic Leadership Team on a regular basis and is considered annually by the Audit and Procurement Committee. Where the risks contained within the register are considered to have a financial dimension this is reflected in the Council's Budget process.

5.4.2 Risks around children's and adults' social care continue to be the most significant ones reflected in changes to the budget in recent years and this will be true again for 2023/24. Other examples in recent years have included housing and homelessness provision and ICT and Digital Services.

5.4.3 The current register incorporates a fundamental financial risk that the Council will be unable to deliver a balanced budget in the medium term. The detailed risk is that the Council will not be able to achieve its priorities whilst at the same time balancing its budget because of a combination of increased pressure on all sources of funding, increased demand, and complexity in services, including in adults and children's social care and the recently heightened impact of inflationary pressures across many areas of the budget. This could result in difficult decisions having to be made by Members and senior officers about which services to support, with consequences for citizens and the city.

5.4.4 In order to mitigate the risks, the Council has in place a rigorous structure to oversee budgetary processes and continues to identify flexibility in existing budgets and undertake technical analysis to identify alternative options to alleviate budgetary pressure. Specific programmes are in place to identify commercial opportunities and optimum service delivery models to produce a medium-term programme of transformation and ensure future financial sustainability. The Council also continues to lobby Government through local government sector organisations whilst also assisting in the economic recovery of the local economy to try to safeguard local income flows. Some of these themes are revisited in the final section on the Council's MTFS approach.

5.4.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) maintains an index of financial resilience for English councils which assesses each authority against a number of indicators, including levels of reserves, external debt and auditors' judgements, in order to illustrate each council's financial position relative to that of comparator authorities. The index was developed with the intention of highlighting areas of potential risk to councils' financial stability and informing the judgement of the chief finance officer on the robustness of budgets. CIPFA acknowledges that the index should not however be viewed in isolation and its interpretation will depend to a large degree on the local context specific to each authority. Coventry's previous results suggest that for the majority of the indicators used the authority does not fall into a higher risk category in relation to comparable authorities. However, Coventry's level of children's social care costs and its relatively low level of unallocated reserves were indicators of a higher perceived level of risk. The latest Index has been published very recently and its results are due to be reviewed very shortly.

5.5 <u>MTFS Assumptions</u>

5.5.1 The Council's prospective Budget plans for 2024/25 will continue to face financial pressure. It is likely that a one-year settlement will be published for that year and that any reform to local government finance and any prospect of multi-year settlements will not occur until the next parliament following a general election. Until this happens the Council's financial plans will necessarily be subject to forecasting uncertainty although there is some evidence to suggest that the funding trajectory for local government has stabilised.

5.5.2 The financial management framework that underpins the MTFS includes:

- 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 corporate planning and monitoring process that considers capital and revenue together,
- 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.

5.5.3 The Council's approach is to manage its reserves in a way that supports the MTFS and the Council's priorities. In particular, the this 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 other than in exceptional circumstances or 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.

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

- Stabilised Government funding from 2024/25 reflecting the indicative national funding position confirmed in the 2022 Autumn Statement. This has been set out by the provisional local government settlement although no authority level detail is available at this stage. The structure of the 2024/25 settlement will dictate the extent to which the headline represents any flexibility for councils or cash or real-terms reductions in funding,
- For strategic financial planning purposes Council Tax and Adult Social Care precept increases will be assumed to match the maximum level advised by Government. Current expectations are that this will be 3% for Council Tax and 2% for the precept in 2024/25 and then 2% and 1% respectively in following years. This will be subject to political debate and decision as well as any changes at a national level,
- Business Rate income (plus compensating Government grants) will be assumed to be inflated broadly in line with Government dictated Business Rates multiplier inflation levels assumed to be CPI following the 2023/24 provisional settlement. Income will be 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,
- Increases in pay budgets of 4% in 2023/24, 3% in 2024/25 then 2% per annum in subsequent years. This area will be kept under close review and it is expected that the Council will continue to reflect sector agreed pay awards and guideline National Living Wage levels,
- An intention to review the need to make provision for budgetary growth as a result of uncontrollable demographic or service demand subject to optimisation of service operation, review of alternative methods of service delivery, review of Council policy to ensure that it reflects current conditions and recognition of overall financial constraints,
- The budget for the Council's Asset Management Revenue Account (AMRA) will be managed in line with the Council's Treasury Management Strategy, updated annually as part of the Budget Report. The AMRA position will take into account any impact of changes in the size and composition of 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 CPIH inflation levels in line with practice adopted across a broad range of public sector areas. Specific contractual agreements on inflation will be honoured where these are in place. CPIH 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 Section 151 Officer. 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.

6. MEDIUM TERM FINANCIAL STRATEGY APPROACH

6.1 The MTFS supports the medium-term policy and financial planning process which is central to the setting of the Council's revenue and capital budgets. The MTFS approach is crucial to providing a stable financial base from which to deliver the Council's priorities as set out in the One Coventry Council Plan. As part of this the Council will seek to maintain a sustainable financial position over the course of the planning period, with detailed proposals for all years set out in the annual Budget Report.

6.2 In order to ensure that Council financial plans are robust in the medium term the Council's MTFS continues to cover a 3 year period. The starting point for the Council is that it faces large budget gaps across the planning period. The recent Pre-Budget Report to Cabinet showed a balanced position in 2023/24 followed by budget gaps rising to £42m by 2025/26, with a total cumulative gap of £73m over the 3 year period. From a resource perspective Coventry has faced significant reductions over the last decade with a reduction in Coventry's real-terms Core Spending Power since 2010/11 of 24.1%. 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. The remainder of this section sets out the separate strands of financial policy which together are designed to ensure that the Council continues to deliver a balanced revenue budget and sustainable and affordable capital programme.

6.3 <u>The One Coventry Approach</u>

6.3.1 The One Coventry Plan recognises that the Council may need to change the way that it works to meet the challenges of delivering services and maintaining a sustainable financial position. This will mean building on good practice where it exists but doing things differently elsewhere, building and sustaining genuine partnerships and city wide collaboration, actively seeking creative opportunities, considering if the Council is working in the right way, investing resources with other public sector partners if appropriate and working flexibly across roles, services and organisations. This will involve reviewing some services to see if they need to be delivered differently or possibly not at all. This will work in different ways for different services but, for instance, may involve an approach of enabling independence with individuals and organisations being encouraged to do as much as possible for themselves.

6.3.2 Subject to the other component parts of the Budget process, the One Coventry approach is intended to offer the Council a means of identifying service savings to help balance its overall Budget. This could involve a wide range of different solutions including reducing service levels or ceasing services altogether, delivering services more efficiently or with fewer resources and delivering services in partnership, with partners doing more or levering in more external resources.

6.3.3 In addition, Council managers and budget holders will continue to be expected to manage their service areas in a way that pays due regard to delivering economy, efficiency, and effectiveness. Delivering services as cost effectively as possible enables the Council to maximise the impact that it can have within a finite level of resources and managers will continue to be held to account for the financial performance of their areas.

6.4 Commercialisation

6.4.1 The Council will seek to maximise income and pursue commercial opportunities where these are consistent with its role and legal powers as a local authority and subject to a responsibility to maintain a robust financial position. The Council's view is that by not acting in this manner, it leaves itself in a more financially vulnerable position and that to do nothing is not a viable option.

6.4.2 The Council will maintain a default position that fees and charges should increase annually in line with inflation and that income earning services should seek to at least cover their costs. Any movement away from these principles should be based on an understanding that such increases would be harmful to the overall trading position or sound policy led reasons for not increasing prices.

6.4.3 The Council will generate capital receipts where there is a clear business case for doing so by disposing of surplus and/or poor performing property and thereby providing funds for capital reinvestment in services, driving growth or making savings through the repayment of debt. Such an approach will be undertaken in compliance with the Prudential Code for capital finance, Statutory Government Investment Guidance and the borrowing requirements of the Public Works Loans Board.

6.4.4 The service dimension of commercial investments is important including in facilitating local regeneration, addressing market failure, accelerating the local response to the climate change agenda and supporting local organisations. These investments also provide financial returns which are crucial in underpinning the Council's budget. 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 this is 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.

6.5 Council Tax and Business Rates

6.5.1 The Council will seek to maximise the income it generates from Business Rates and Council Tax. There is an expectation that the Council tax-base will continue to be buoyant as the Council seeks to facilitate the provision of local housing, including affordable housing, for its citizens. In addition, the Revenues and Benefits Service will seek to maximise the Council Tax collection rate (currently set at 97.9%) and take steps to ensure compliance with the applicability of discount and exemption policies.

6.5.2 The One Coventry Plan priority to ensure that Coventry is a city with a strong and resilient economy, where inclusive growth is promoted and delivered, businesses are enabled to innovate and grow, and new local jobs are created enshrines a parallel aim of ensuring that the Business Rates tax-base is resilient. The Revenues and Benefits Service will seek to maximise the Business Rates collection rate, taking steps to identify all relevant taxable properties and to ensure compliance with the applicability of discount and exemption policies.

6.6 Treasury Management and Capital

6.6.1 The Council's treasury management function seeks to ensure that cash is available when needed to meet the Council's obligations. The Council's Treasury Management Strategy is clear that the primary objectives of investing cash balances are to maintain the capital security of sums invested and to ensure adequate liquidity. After these, a third objective is to maximise return. The treasury role also extends to maximising revenue benefits by seeking the optimum balance between retaining external investments, repaying existing loans and avoiding new borrowing as appropriate given prevailing and forecast interest rates. Although the Council has an underlying need to borrow as a result of large Capital Programmes funded in part from borrowing, it has continued to avoid the need to undertake new long-term borrowing by utilising cash from reserve balances and grant funding received in advance of the need to spend. This approach seeks to optimise the financial benefit by avoiding unnecessary borrowing costs.

6.6.2 The Council will seek to maximise capital programme funding from external sources such as capital grants and Section 106 contributions in order to protect and sustain existing Council resources. Where appropriate the Council may use revenue funding of capital for on-going programmes of expenditure. In the absence of other funding and if the use of prudential borrowing is not appropriate, the Council will seek to utilise capital receipts to fund capital projects and will only commit capital receipts that have been achieved and are available on the Council's balance sheet.

6.6.3 Any remaining schemes that have a sustainable business case that justifies borrowing as a funding source will be resourced from prudential borrowing. In this manner, the Council will avoid putting any additional burden on Council taxpayers or seeking contributions from service budgets which reduce the net level of resources to fund services. When borrowing, the Council will look for the most cost effective source of funding, either PWLB or alternative funders.

6.7 Reserves

6.7.1 The overwhelming majority of the Council's reserve balances are held to provide a one-off resource to meet service objectives and fund specific projects that have been identified and/or approved in advance. A small number but significant balance of other reserves is held to provide protection against risk. These resources are a one-off source of funding that are not available on an ongoing basis. It is not the intention that the Council's reserves should be used to balance its Budget position in normal circumstances.

6.7.2 Within this context it is also true however, that in exceptional circumstances the Council could divert resources from reserve balances in order to manage a difficult budgetary position. There is significant flexibility which could be applied through delaying projects or service proposals or by cancelling them altogether which could free up reserves to balance the budget. This is not a course of action that would be recommended by the Council's Section 151 Officer except in the most difficult of financial circumstances, but it is important to hold this as a measure of last resort to set against the other tools available as part of a medium term strategy.