Coventry City Council

Public Report
Cabinet Report

Cabinet	26th February 2013
Council	26th February 2013

Name of Cabinet Member:
Cabinet Member (Strategic Finance and Resources) - Councillor Duggins,

Director Approving Submission of the report:
Corporate Management Board

Ward(s) affected:
All

Title:
Budget Report 2013/14

Is this a key decision?
Yes
Cabinet and Council are being recommended to approve the Council's **Revenue Budget** for 2013/14 incorporating revenue spending and savings decisions for 2013/14 and future financial years and the **Capital Programme** for 2013/14 to 2017/18.

Executive Summary:

This report follows on from the Pre-Budget Report approved by Cabinet on 11th December 2012 that proposed a range of budget options. These have since been subject to a period of public consultation. It is intended that these proposals will now form the basis of the Council's final revenue budget for 2013/14. In the separate Council Tax Setting report on today's agenda it is recommended that city Council Tax levels are frozen for a third consecutive year in line with the Budget recommended in this report.

2013/14 is the third year of four covered by the 2010 Spending Review which set out the Government's spending plans and incorporated significant reductions in the real level of resources available to local government. This has been updated by the Chancellor's Autumn Statement released on 5th December 2012 and the Local Government Finance Settlement for 2013/14 announced on February 4th 2013.

The Government has implemented a number of complex technical changes to the system of Local Government Finance. These changes have made it very difficult to compare the Council's financial position clearly with previous years. However it is clear that Coventry will suffer a cash loss of more than £7m in 2013/14 as a result of the Settlement (**Table 2**). In addition, the Council

has needed to set aside amounts within its budget to take account of the level of Business Rate risk and is faced with expenditure pressures relating to grant loss such as the 2012/13 Council Tax Freeze Grant and the education services related Local Authority Central Share Equivalent Grant (LACSEG – the so called Academy schools adjustment). The combined impact of these changes amounts to £8m. In totality, the Council's Settlement represented a resource loss in the region of £15m and when added to other unavoidable spend pressures confirmed the need to bridge the £28m funding gap outlined in the Pre-Budget Report.

In line with its Medium Term Financial Strategy, the Council has continued to meet the challenge of significantly reduced resources through its abc programme of transformation projects and a range of other management approaches and technical measures. This report sets out a range of recommended savings proposals and a much smaller number of spending pressures/proposals that together produce a balanced budget. This package of changes allows the Council to continue to deliver its key policies in 2013/14. However, national spending plans mean that local government will not be able to sustain the current range and level of services in the future. As a result, the Council will need to revise its expectations and those of the citizens and taxpayers of Coventry as the period of austerity continues.

The abc Programme involves a number of projects which are fundamentally reviewing the Council's current service provision with the objectives of achieving improved services to customers as well as significant cost reductions. The medium term financial plan anticipates significant further future savings from the abc Programme to help balance the Council's budget.

In order for the Council to place itself in the best possible position, it is important for it to take a positive approach to a range of policy changes and trends in the shape and nature of local government. Therefore, the Medium Term Financial Strategy and the measures within this report support and reflect a range of developments – participation in the Coventry and Warwickshire Local Enterprise Partnership, the potential establishment of a local City Deal or equivalent, involvement in a range of sub-regional projects and service delivery options and a greater push for local economic and Business Rate growth. If, as seems likely, the current trend to make local government more self-reliant becomes a long-term pattern, these initiatives will become essential to underpin the city's and the Council's financial position.

The proposals in the report will enable the Council to set a balanced budget for 2013/14 and move towards balancing in subsequent years although the medium term financial position still shows revenue budget gaps of £4m and £8m in 2014/15 and 2015/16 respectively.

Legislation now demands that the Council Tax Setting Report that accompanies this one on today's agenda recommends a 'Council Tax Requirement' for 2014/15 rather than the 'Budget Requirement' that was recommended under previous legislation. The Council Tax Requirement for 2013/14 is £93.8m. On the previously reported Budget Requirement basis, the Council's like for like net revenue budget funded by Government Grant, Local Business Rates and Council Tax will decrease by £5.2m from £273.6m in 2012/13 to £268.4m in 2013/14 (a loss of £7.1m Start-Up Funding netted off by £1.9 additional resources from technical changes to Council Tax). This movement needs to be considered alongside the other changes to the Council's financial position described above. The total or gross revenue budget which also includes spending funded by specific grants and fees and charges will be £742.5m.

The budget recommended within the report is based on a city Council Tax freeze for 2013/14. If the Council chooses to approve this freeze it will enable the Council to take advantage of the Government's two year Council Tax Freeze Compensation Grant equivalent to a 1% increase in Council Tax. As well as freezing the amount paid by Council Tax payers for City Council services this will actually increase the level of resources available to the City Council in 2013/14 and 2014/15 compared with increasing Council Tax up to the limit allowed before a public referendum. It will however also reduce the level of resources available to the Council by around £1m p.a. from 2015/16 onwards.

This report includes a proposed Capital Programme of £61m for 2013/14 and £179m for the period 2014/15 to 2017/18. This consists of schemes and programmes that have already been approved plus programmes of essential expenditure in the areas of property, highways & pavements maintenance and ICT infrastructure plus the Nuckle rail scheme and provision for new cemetery facilities at the Lenton's Lane site. The future programme contains provision for expenditure on the Regional Growth Fund, Growing Places and a City Deal or equivalent scheme. The 2013/14 programme requires a level of prudential borrowing of £8m to support investment in specific schemes. The revenue impact of repaying this borrowing is taken into account in the revenue budget.

The Council is also required to approve its Treasury Management Strategy and Prudential Indicators on an annual basis and these are incorporated within this report.

Recommendations:

That Cabinet recommend to Council the approval of recommendations (1) to (5).

Council are recommended to:

(1) Approve the final spending and savings proposals in **Appendix 2**.

(2) Approve the total 2013/14 revenue budget of £268.4m in **Table 2** and **Appendix 3,** established in line with a zero city Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

(3) Note the Director of Finance and Legal Services' comments confirming the robustness of the budget and adequacy of reserves in **Section 9.**

(4) Approve the Capital Programme of £61m for 2013/14 and the future years' commitments arising from this programme of £179m in 2014/15 to 2017/18 (**Section 6** and **Appendix 4**).

(5) Approve the proposed Treasury Management Strategy for 2013/14 (**Section 7**), the revised Investment Strategy and Policy (**Appendix 5**) for immediate implementation and adopt the prudential indicators and limits described in **Section 7** and summarised in **Appendix 6**.

List of Appendices included:

Appendix Number	Title
1	Public Consultation Responses
2	Spending & Savings Proposals and Equality Issues
3	Summary General Fund Revenue Budget
4	Capital Programme 2013/14 to 2017/18
5	Investment Strategy and Policy
6	Prudential Indicators

Other useful background papers:
None

Has it been or will it be considered by Scrutiny?
No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?
No

Will this report go to Council?
Yes 26th February 2013

Report title: Budget Report 2013/14

1. Context (or background)

1.1 The purpose of this report is to seek approval for the 2013/14 Revenue Budget and corresponding Council Tax freeze, the Capital Programme, Treasury Management Strategy and Prudential Indicators. The report also informs members of the Government's grant allocation for 2013/14, the Council's expected baseline level of locally retained Business Rates and the implications for future years' financial plans of the information contained within the report.

1.2 On December 11th 2012, Cabinet received the Pre-Budget Report that formed the basis of the statutory budget consultation process. Council approved the Medium Term Financial Strategy on 15th January 2013 which provides the basis of the Council's medium term revenue and capital financial position for the next three years.

1.3 The proposals outlined in this report have been arrived at within the context of the Council's commitment to delivering the Coventry Sustainable Community Strategy and the Council Plan 2011/12 to 2013/14. This is increasingly challenging at a time of lower funding levels and one of the key messages within this report is that delivery of the existing range, levels and quality of Council services will not be possible over the medium term. However, the Council remains committed to maintaining and improving its overall level of performance in as many areas of service as possible within the context of the funding constraints upon it. This can only be achieved through the continued successful delivery of its abc Programme of transformation reviews. The programme, now into its 4th year, is reviewing current service provision across a very wide range of Council services with the objective of achieving improved services as well as cost reduction. The medium term financial plan anticipates new savings of £44m over the medium term to help the Council balance its budget. The estimated impacts of these abc projects form a fundamental part of the revenue spending and saving proposals within the report.

1.4 The Medium Term Financial Strategy and Pre-Budget reports set out the massive national changes affecting the financial and policy landscape for local authorities. At a local level the Council continues to face challenges that include providing robust services for vulnerable children and adults, and delivering other vital local services to Coventry citizens. It is also a key player in taking forward regeneration opportunities to maintain local and sub-regional economic growth. This latter point takes on an added significance from 2013/14 as a result of councils being allowed to retain up to 49% of any Business Rate growth in their area. The future strength and vitality of the local economy will take on increasing significance for core Council funding over the coming years.

1.5 Large urban authorities like Coventry which contain relatively high levels of deprivation are more dependent on Government grant settlements and are therefore impacted more as grants are cut. However, the Council is committed to working closely with its partners, local people and communities to develop positive and successful strategies to address this challenge.

1.6 In addition to the reductions in resources outlined in Section 3, the Chancellor's 2012 Autumn Statement made it clear that public sector cuts will be expected beyond the medium term planning horizon. Initial forecasts of the Council's medium term position are shown in Section 5. Forecasts for economic growth are now less optimistic than previously and the prospects of very challenging conditions for a sustained period are looking increasingly likely. In view of this it is essential that the Council takes steps to establish robust budgets and secure financial foundations to prepare itself for the very testing times ahead.

2. Options considered and recommended proposal

2.1 The sections below outline the City Council's overall financial position including the resources available to support net budget (**Section 3**), the savings and cost pressures reflected in the proposed budget (**Section 4**) and the current position facing the Council over the medium term (**Section 5**). Approval is being sought for the saving and spending proposals and the overall budget incorporating a city Council Tax freeze and acceptance of the Government's 2013/14 Council Tax Freeze Grant.

2.2 There have been some fundamental changes in local government funding streams for 2013/14. The previous Formula Grant has now in effect been replaced by a combination of Revenue Support Grant, 'Top-Up' funding from Government plus the local share of Coventry Business Rates. Several other funding streams such as Early Intervention Grant and Council Tax Reduction Scheme Grant have been added to this cocktail of resources to make-up what the Government is referring to as Start-Up funding. Other funding has been transferred out of the system (the academy adjusted LACSEG or Local Authority Central Spend Equivalent Grant, relevant to school based services) whilst the Council has assumed responsibility for Public Health Services and will receive a new grant to pay for the associated public health duties. This combination of changes makes it very difficult to present a single coherent picture of the overall real resource loss facing the Council but further analysis in section 3 demonstrates impacts on the Council's 2013/14 budget in the region of £15m.

2.3 The report seeks approval for a 2013/14 Capital Programme of £61m compared with an initial 2012/13 programme of £57m. The Programme is considered in detail in **Section 6** and **Appendix 4**.

2.4 The report is also required formally to seek Council approval for the Treasury Management Strategy (**Section 7)** the Investment Strategy and Policy **(Appendix 5),** the Prudential Indicators (**Section 7 and Appendix 6**) and the Chief Financial Officer's assessment of the adequacy of reserves and robustness of the Budget (**Section 9**).

3. Resources – Council Tax, Start-Up Funding, Specific Grants and Fees and Charges

3.1 The Council's total revenue budget is funded from a combination of Council Tax resources, Start-Up Funding from central government, specific grants from Government and other bodies and fees and charges for Council services. The key elements that determine the size of budget that the Council can afford are explained below.

Table 1: Factors Affecting Total Resources

Item	Description	Basis For This Report
Council Tax Resources – Tax-base	Measure of the taxable capacity - the estimated number of Band D equivalent chargeable dwellings for the year	Finalised in the 7th January 2013 report to Cabinet.
Council Tax Resources - Increase in City	Member decision on how much the City's Council Tax should increase.	This report recommends a Council Tax Freeze within the Council Tax Setting report

Council Tax rate		considered alongside this one.
Start-Up Funding (Local Business Rates plus Revenue Support Grant plus Top-Up Funding)	Final allocation of Government resources represented by Revenue Support Grant and Top-Up Funding plus the local share of Business Rates generated within Coventry.	Government announced figures in Final Settlement on 4th February 2013 plus local assessment of likely Business Rates
Specific Grants	Grants provided by the Government, quasi-Government organisations and by the European Government. Such grants usually have a specific stated purpose although the Council can apply discretion over how many of these are applied in practice.	All known grants have been included. The nature of such funding means that some grants will not be known until after the budget has been set.
Fees and Charges	A combination of fees, charges for Council services, fines levied, rents charged on Council owned property. Determined by the range of services included, the volume of services consumed and the level of charging and other contributions to fund Council spend.	The Medium Term Financial Strategy dictates that standard fees and charges should be inflated in line with September inflation (2.9%). Property rents and some charging areas will vary from this rate of increase based on economic and business decisions.

Taking all of these factors into account the final resource position for 2013/14 is reflected in the table below.

Table 2: Resources to Fund the Budget

2012/13* £000		2013/14 £000s	(Increase)/ Decrease £000s	(Increase)/ Decrease %
(91,940)	A: Council Tax Requirement**	(93,813)	(1,873)	(2%)
0	B: Business Rates (Local Share)	(53,056)	7,079	3.9%
(181,680)	C: Revenue Support Grant and Top-Up	(121,545)		
(389,450)	D: Specific Grants (see section 3.4)	(389,706)	(256)	(0.1%)
(77,092)	E: Fees and Charges***	(84,344)	(7,252)	(9.4%)
(273,620)	Funding of Net Budget (A + B + C)	(268,414)	5,206	1.9%
(740,162)	Funding of Gross Budget (A + B + C + D + E)	(742,464)	(2,302)	(0.3%)

*The 2012/13 Budget figures have been adjusted to take account of transfers of responsibility and funding mechanisms.

**The Council Tax Requirement for 2012/13 included Council Tax Benefit contributions of £26.4m. These resources are now paid via Line C: Revenue Support Grant in line with statutory requirements. On a like for like basis Council Tax revenue has increased by £1.9m (2%). The proposal in this report is for individual Council Tax bills to be subject to a zero increase for the City element of Council Tax and this increase in revenue is due to changes in exemptions for empty homes and 2nd properties and an increase in the number of properties. Any surplus or deficit from Collection Fund balances are now shown as part of the Council's in line E: Fees and Charges in line with statutory requirements.
***Some contributions previously shown as grants have been reclassified as contributions under Line E: Fees and Charges in 2013/14

3.2 The combination of Revenue Support Grant, Top-Up funding and the local share of Business Rates should reflect an authority's spending needs relative to other authorities, as determined by the Government after taking into account each authority's tax-base, which determines the amount of money it can raise through Council Tax. The figures in this report use the Final Local Government Finance Settlement position for 2013/14 (final) and 2014/15 (provisional) plus an indicative position from the 2010 Spending Review and 2012 Autumn Statement for 2015/16. It is important to recognise that the projections made for the years beyond 2013/14 are subject to further changes and clarifications by Government and the Council's experience of how the local Business Rates Retention scheme impacts upon the Council's overall resources position.

Further to paragraph 2.2 above the headline changes incorporated within the Council's overall financial position include a decrease of £7.1m in the Council's Revenue Support Grant, Top-Up Funding and the likely local share of Business Rates from £181.7m to £174.6m incorporating losses of funding for Early Intervention services and the Council Tax Reduction Scheme. The Council will also suffer from the fall-out of funding for Local Authority Central Services Equivalent Grant, a net loss of Council Tax Freeze resources and the need to make provision for Business Rates appeals losses being passed to the Council by Government and the future volatility of Business Rates levels within the city. These further changes relating to changes made by Government to the funding system amount to a further £8m. When added to the headline resource line this reflects an overall impact on the Council of c£15m.

Although the headline loss of Government funding shows a modest (by recent standards) resource loss of 3.9% in 2013/14 (**Table 2**) the other changes above represent a significant overall impact on the resources available to the Council. In addition, future years resource losses threaten to ratchet up significantly. Using the Government's figures for Coventry's Start-Up Funding (Revenue Support Grant, Top-Up Funding and the Government's assessment of local Business Rates) the three year resource position is as follows.

Table 3: Coventry's Start-Up Funding **(Government Figures)**

		2013/14 Final	2014/15 Provisional Settlement	2015/16 Indicative Estimate
Coventry's Start-Up Funding £m	£m	**(176.8)**	(159.7)	(148.5)
Change on Previous Year*	£m	**5.7* Decrease**	17.1	11.2
	%	**3.1%* Decrease**	9.7% Decrease	7.0% Decrease

* This is a lower reduction than calculated in Table 2 above because the Government has assumed a higher level of local Business Rates than that assumed locally.

Within this, Coventry has also lost £8.4m of funding in the 2013/14 settlement as a result of "damping" that is built into the allocation methodology. Damping is a financial mechanism to protect those authorities which the Government assesses have fared worst from the settlement by taking money away from other authorities. The Council's view is that flaws in the damping methodology have been carried through to the new funding settlement and that it continues to take money away from Coventry in our final grant allocation in a way that is unfair. The Council has made representations previously to Government on this matter but the Council's arguments have not been reflected in the final settlement position shown.

3.3 Specific Grants – In overall terms specific grant funding is unchanged between 2012/13 and 2013/14. Within this, the headline changes involve a new £18m grant to cover the transfer of responsibility for Public Health to the City Council and increased grants to schools of c£10m to reflect pupil growth, early years funding and Post-16 funding less some fall-out of grant funding in relation to the element of Dedicated Schools Grant that has transferred to Academy Schools. The former Council Tax Benefit Grant (£29.4m in 2012/13) has now been included within the Council's "Start-Up Funding" for 2013/14. Local Authority Central Share Equivalent funding (LACSEG) has moved from general formula funded spend to become a new grant (Education Support Grant) and proposals within **Appendix 2** of this report have already anticipated a reduction from £7m to £5.5m. in 2013/14.

4. General Fund Revenue Budget

4.1 The General Fund Budget recommended in this report reflects the Government funding settlement, the Council's spending priorities, the approaches outlined in the Medium Term Financial Strategy and a Council Tax freeze. The Pre-Budget Report taken to Cabinet on 11th December 2012 showed a budget gap of £2.0m. The principal movements that have happened since then are shown in **Section 4.2** below. The Council's Revenue Budget is detailed in **Appendix 3**, which sets out the Cabinet Portfolio revenue budgets and sources of revenue funding.

4.2 Changes to Spending and Saving Proposals

This budget includes a number of saving and expenditure proposals. A description of these was included within the December 11th Pre-Budget Report. A line by line impact of how these proposals affect the base budget is given in **Appendix 2** with an indication of where there have been changes to the figures included within the Pre-Budget Report. The principal changes are shown in the table below. These changes enable the Council to deliver a balanced budget for 2013/14.

The Pre-Budget Report was approved on the basis of consulting on a Council Tax rise of 2%. This is the maximum increase allowed by Government before the Council would be required to hold a referendum on the matter. Government clarification has been received subsequently on the calculation of the amount of Council Tax revenue that can be raised before triggering the referendum limit. The result is that it is now to the Council's financial advantage for each of the next two years to freeze the 2013/14 Council Tax at existing levels and receive a Council Tax Freeze Grant of £1.2m equivalent to a 1% Council Tax rise (and which would be payable for two years). On this basis, this budget is being proposed on the basis of freezing the city Council Tax at existing levels.

Table 4: Principal Changes to Pre-Budget Report

	Appx 2 Line Ref	2013/14 £m	2014/15 £m	2015/16 £m
Pre-Budget Report Position		**2.0**	**3.4**	**6.9**
Academy Schools Top-Slice – Grant Cut	2	0.5	0.5	0.5
Reduction in Early Intervention Grant	4	0.3	1.0	1.0
Change to Local Government Settlement	5	(2.1)	0.9	1.3
Contribution to Children Learning and Young People Budget Pressures	7a	0.7	(0.5)	(1.1)
Council Tax Freeze Grant	23a	(1.2)	(1.2)	0.0
Net loss of Council Tax resources from 0% Council Tax Increase	23b	1.0	1.0	1.0
Localised Council Tax Benefit Implementation	25	(0.5)	(0.5)	(0.5)
ITA Levy	28	(0.7)	(0.7)	(0.7)
Budget (Surplus)/Deficit		**0.0**	**3.9**	**8.4**

4.3 When the impact of these changes is added to the position shown at the Pre-Budget stage, the final net position is as follows and detailed in **Appendix 2**.

	2013/14 £000s	2014/15 £000s	2015/16 £000s
Initial Budget Gap	14,445	27,358	45,358
Emerging Risks and Pressures	13,613	17,770	17,701
Overall Budget Gap to Balance	**28,058**	**45,128**	**63,059**
Policy Developments	200	2,000	4,500
Technical Budget Changes	(14,003)	(13,174)	(11,357)
Options For Savings	(2,313)	(2,513)	(3,783)
Abc Programme Next Phase	(11,942)	(27,515)	(44,015)
	0	**3,926**	**8,404**

4.4 Reserves

The level of City Council reserves as at 31st March 2012 is reflected in the table below.

Table 5: Reserves as at 31st March 2012

	Balance as at 31st March 2012 £m
Directorate Reserves	(13.4)
Corporate Reserves	(22.5)
Capital Reserves	(5.7)
Insurance Fund	(4.4)
Schools Reserves	(20.3)
Total Reserves	**(66.3)**

This level of reserves is adequate for the current known liabilities and approved policy commitments facing the City Council and is appropriate to sustain current plans, including the following commitments:

- £20m of schools specific reserves
- £8.5m for redundancy and pension strain costs over the medium term
- £5.5m to cover unforeseen financial problems in line with the Medium Term Financial Strategy
- £6m to fund the Capital Programme
- £4m to cover the risk of potential insurance claims against the Council
- £4m for planned future costs of the Council's Private Finance Initiative schemes in line with PFI financial models
- £4m of grant funding earmarked for specific schemes

The overall level of reserves is expected to fall below this current level over the medium term and the view of the Director of Finance and Legal Services is that this is at or approaching the minimum acceptable level for a Council of this size in the current financial climate.

5. Medium Term Financial Position

5.1 Whilst this budget produces a balanced position for 2013/14, Government indications of future funding represent a significant reduction in future years. In addition, the new model for funding local government resulting from Business Rate retention introduces a degree of uncertainty that is unprecedented in recent times. Financial planning for the impact of this has proved extremely challenging across the local authority sector and Government guidance has at times been inconclusive and notified within a timescale that has allowed councils very little time to manage the consequences. The best estimate of the overall future resource position plus what we know about the Council's current spending plans and the decisions within this report is shown in the Table below.

Table 6: Projected Medium Term Financial Position

	2014/15 £m	2015/16 £m
Spending after applying fees, charges and specific grants	260.2	255.3
Resources from general government grant, Council Tax and retained Business Rates	(256.3)	(246.9)
Anticipated Budget Gap	**3.9**	**8.4**

This position assumes achievement of all savings within a very challenging abc programme.

5.2 The Council's approach to reducing spending and delivering efficiencies through the abc Programme has recently been reaffirmed within it's Medium Term Financial Strategy. The anticipated outcomes from this are built into the position shown above. This approach, together with ongoing monitoring of existing budgets, is the starting point for the Council in seeking to produce a balanced medium term financial position. However, the size of the gap is such that the Council will continue to be faced with a range of difficult budget decisions over this period.

6. Capital Programme

6.1 In **Appendix 4** there are proposals for a Capital Programme of £61m. This compares with the current projected 2012/13 programme of £61m. The proposals include significant largely grant funded investment in the City's schools, a highways and pavements investment programme consistent with 2012/13 and continued essential spending in relation to property and ICT requirements.

6.2 The Programme has been balanced without the need for non-scheme specific prudential borrowing within 2013/14. Such borrowing of £1m is required for 2014/15 but not for the remainder of the life of the Programme. The Council's Medium Term Financial Strategy dictates that this borrowing should be repaid from capital receipts as they are generated in future years. The application of receipts has enabled the Capital Programme to be returned to a position of near balance after a period of several years where this was not the case. It is intended that close control should continue to be exercised on the approval of any new capital spending commitments in the coming years.

6.3 This year's programme includes the following:

- A £18m programme in 2013/14 for Children, Learning and Young People's Services, the majority of which will be invested in schools across the City including continuation of programmes to increase primary school places.
- A total investment of £14m in the City's transport and highways infrastructure including a continued £6m highways and pavements investment programme, spending on Cycle Coventry and city centre public realm works for which a further European Regional Development funding bid has been submitted in February.
- Initial expenditure funded from the Government's Regional Growth and Growing Places funds to support programmes and projects in partnership with the private

sector and associated infrastructure schemes to help create economic growth, employment and additional business rates.

- The report builds in revenue provision for a long term Council investment programme of £50million to stimulate the local economy and create jobs, potentially through an agreement with the Government for a City Deal for the region.
- Further spending of £20m over two years on the Nuckle scheme improving the railway links between Nuneaton and Coventry and incorporating a new station at the Ricoh Arena.
- A £2.4m programme of Disabled Facilities Grants;
- Continuation of the investment in ICT infrastructure (£4m in 2013/14) funded largely from Prudential Borrowing;
- A £2.75m programme of property maintenance funded by revenue resources;
- A programme of externally funded parks and play schemes (£1.2m);
- Works to extend and improve cemetery facilities at Lenton's Lane at a total cost of £1m.

6.4 The main sources of funding for capital expenditure are listed below:

- Capital grants from government bodies and the private sector (£38m). The Government grants support spending within the Children's, Housing and Highways' programmes plus Nuckle funding.
- Unsupported or prudential borrowing (£8m) – this borrowing will support £3m of new ICT infrastructure spending (part of which has been rescheduled from 2012/13), Lenton's Lane Cemetery (£1m) and vehicle acquisition (£4m). This borrowing attracts no revenue support from Government and the additional cost of the borrowing has been reflected in the revenue budget.
- Capital receipts arising mainly from selling Council assets (£6m).
- £9m of revenue funding for highways, pavements, property maintenance and ICT infrastructure investment.

6.5 **Forecast Capital Programme**

All areas of the Programme included have been evaluated to identify the likely realistic profile of spend, to maximise the amount of expenditure against which we can apply grant resources and to maximise the resources available corporately to the Council to fund the Capital Programme.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2013/14 as a result of the 2012/13 budgetary control process. Full details of the proposed programme are included at **Appendix 4.**

Table 7: 2013/14 – 2017/18 Capital Programme (Expenditure & Funding)

Expenditure	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Education/Children and Young People	18,556	15,452	17,675	11,700	10,116
City Development	18,126	48,034	4,915	2,855	2,750
City Services	18,666	19,117	9,878	9,987	8,822
Neighbourhood Action, Housing, Leisure and Culture	3,971	2,594	2,153	2,126	2,126
Sustainability and Local Infrastructure	4,450	4,217	1,000	1,000	1,000
Total Approved Programme	63,769	89,414	35,621	27,668	24,814
Allowance for Rescheduling	-3,188	-1,442	2,618	529	169
Programme after Rescheduling	60,581	87,972	38,239	28,197	24,983

Funding	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Prudential Borrowing	8,088	7,760	1,316	1,409	1,383
Grants & Contributions	37,679	69,326	26,909	17,897	16,303
Capital Receipts	6,100	3,050	3,050	3,050	3,050
Revenue Contributions*	8,374	7,578	6,673	4,534	8,980
Leasing	340	258	291	1,307	168
Total	60,581	87,972	38,239	28,197	29,884
Resources Available	0	0	0	0	4,901

* The revenue contributions total has been reduced (2013/14 – 2014/15) to recognise repayment of reserve balances used to cash-flow previous spending commitments (e.g. Stivichall School).

Other significant CLYP capital work programmes are excluded from the Programme and will be the subject of future reports to members. Between 2017 and 2022 the Council will need to expand secondary schools by the equivalent of up to 29 forms of entry to meet rising demand for places and support delivery of the City's SEN Broad Spectrum policy where suitable facilities for a further primary and secondary broad spectrum school are required. In addition, 7 replacement schools are being funded as part of the Government's Priority School Building Programme and will be procured and managed by the Education Funding Agency outside of the Council’s Capital Programme. This will address some of the worst condition schools in the City although significant condition issues still exist across the City's school estate primarily driven by the age and construction type of buildings.

The Council submitted a capital grant funding bid for £5m to deliver ultrafast broadband in the city (Super Connectivity). In the Autumn Statement, the Chancellor announced the Council was one of the successful authorities for the Superconnected Cities programme, but to date no details of the value of the grant have been released. These will be released later in 2013/14 along with any specific grant restrictions

The programme includes an ongoing 5% allowance for the rescheduling of expenditure between years with an adjustment shown at a corporate programme level. This recognises the potential benefits of maintaining a degree of flexibility through the year and the fact that the Council is often faced with rescheduling due to factors outside its control.

Any potential new demands that arise over time as new initiatives are identified will need to be subject to rigorous review to balance their priority and affordability. The Council will continue to re-evaluate the future Capital Programme taking into account economic circumstances, its ability to generate capital receipts and the profile of other areas of significant investment that it manages.

7. Treasury Management

7.1 Treasury management entails the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Local authorities are required to maintain an overarching annual Treasury Management Strategy which is the subject of this section of the report.

7.2 In addition, authorities are required to set out:

- An Investment Strategy and Policy detailing out how investment risk is managed (**Appendix 5**);
- A suite of prudential indicators for treasury and capital programme management (**Appendix 6**);
- A Minimum Revenue Provision (MRP) statement detailing the way it calculates the prudent provision for the repayment of borrowing **(Section 7.6)**.

7.3 The detailed objectives that underpin the Treasury Management Strategy are:

Borrowing, to:

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

Investment

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

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk and the successful identification and control of risk are integral to the treasury activities and include the following: credit risk; liquidity risk; market or interest rate risk; refinancing risk and legal or regulatory risk.

7.4 Interest Rate Forecast

In the current economic conditions it is expected that base rate (currently 0.5%) will remain low for some time. The impact of a low base rate is that shorter term borrowing costs and investment returns remain low. Longer term interest rates, for capital programme borrowing through the Public Works Loans Board (PWLB), are influenced by other factors, in particular the price of UK government gilts. During 2012/13 longer term PWLB rates have been in the region of 4% to 4.5%, although forecasts suggest that over the coming years these levels could rise, potentially approaching 5%. Longer term rates can be volatile and are set by the PWLB twice a day. Arlingclose, the City Concil's treasury advisers, provide regular interest rate forecasts and commentaries.

7.5 Borrowing

Based on current estimated levels of spend the expected long term debt position of the authority at 31st March 2013 is as follows:

Table 8: Estimated Long Term Borrowing at 31st March 2013

Type of Debt	Total £m
PWLB	246.8
Money Market	59.0
Stock Issue	12.0
Transferred Debt (other authorities)	19.0
Total borrowing	336.8
PFI and Finance Lease Liabilities	51.2
Total Long Term Liabilities	388.0

The main funding sources used by Coventry are:

- The Public Works Loans Board (PWLB) - this is, in effect, the Government. Loans may be obtained at variable or fixed rates of interest. From late 2012 the PWLB has reduced borrowing rates by 0.2% for qualifying authorities, including the City Council. This "certainty rate" initiative provides a small, but welcome reduction in the cost of future borrowing;

- Money Market - these are loans obtained from financial institutions and include LOBO (lender's option, borrower's option) loans typically with an initial fixed rate for 3-4 years, then variable thereafter. Should the lender exercise the option and seek to increase the rate beyond a certain level the borrower can choose to repay the loan, refinancing it at that point in time. This is, in effect, a call option for the lending bank. Coventry has £58m of such loans and in the event of a "call" one approach that would be considered would be to repay the loan, refinancing it from another source, such as the PWLB;

- Stock Issue - this is loan stock issued by the City Council in 1996. In 2003/04 approximately £88m of the total of £100m was redeemed as part of a debt restructuring.

Under accounting rules, liabilities to make payments under PFI schemes and finance leases are included within the City Council's balance sheet.

Given the revenue budget and associated capital programme outlined in this report, the estimated funding requirement for the City Council for each of the capital programme years from 2013/14 is summarised below:

Table 9: 2013/14 Funding Requirement (excluding PFI & finance leases)

Forecast Borrowing Requirement	2013/14 £m	2014/15 £m	2015/16 £m
New funds to finance the Capital Programme	8.1	7.8	1.3
Minimum Revenue Provision (debt repayment provision)	(14.0)	(15.3)	(15.7)
Forecast increase (reduction) in borrowing requirement	(5.9)	(7.5)	(14.4)

Local authorities have scope to borrow in advance of need, essentially borrowing on the basis of future planned capital spend. However, to avoid potential interest rate and credit risk it is proposed that the City Council's current practice of not borrowing in advance of need continues.

In addition to the impact of the capital programme, other factors come into play when assessing the overall need to borrow or the capacity to invest funds. These factors include the level of short term cashflow balances, the use of reserve balances and the maturity of long term debt such as PWLB and, potentially, LOBO market loans.

A particular issue for local authorities in recent years has arisen due to short term rates, including base rate, being lower than long term rates. This means that where the proceeds of long term borrowing are temporarily held as investment balances, there is a short term “cost of carry” reflecting the difference in short to long term rates. This is an immediate disincentive to undertake long term borrowing, even when long term rates are historically low.

In the light of the interest rate forecast, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2013/14 and future years, the Director of Finance and Legal Services will, under delegated powers, undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

The Director of Finance and Legal Services will monitor the opportunities for rescheduling debt through redeeming existing borrowing early and replacing it with borrowing at lower interest rates. This will only be done if revenue benefits justify it, taking into account early repayment costs. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has tended to reduce the opportunities for local authorities to benefit through debt restructuring.

7.6 Minimum Revenue Provision

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

Capital Finance Regulations (SI 2008/414) require the approval of an MRP Statement setting out the authority's approach. It is proposed that the existing policy continues:-

- For capital expenditure incurred before 1st April 2008 or which in future will be Supported Capital Expenditure, the Council will follow existing practice, the so called "Regulatory Method", with MRP broadly based on 4% of the underlying Capital Financing Requirement adjusted for the Adjustment A;

- From 1st April 2008 for all capital expenditure met from unsupported or prudential borrowing MRP will be based on the estimated asset life of the assets or a depreciation calculation;

- MRP for leases brought onto the balances sheet under accounting rules will match the annual principal repayment for the associated deferred liability.

7.7 Investments

The main investments used by the City Council are:

- Call accounts and deposits with banks, building societies, local authorities and the government, largely for fixed durations and rates of interest. During 2012/13 the amount held in these investments has ranged between £35m - £100m;

- Collective Investment Schemes (pooled funds) including Money Market Funds, which enable local authorities and other investors to diversify their investments. During 2012/13 the amount held in these investments has been approximately £14m.

With short term interest rates low for some time, in order to secure higher interest rates, investments need to be made for longer durations, provided cash flow permits this. To diversify a portfolio largely invested through cash balances, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

The management of investment risk remains central to local authority treasury management. Consequently, in line with statutory guidance, the order of objectives in investing the Council's funds remains:

- security of capital;
- liquidity or accessibility of the council's investments;
- yield or return.

From this basis the Council's proposed Investment Strategy and Policy (**Appendix 5**) deals with the management of counterparty or "credit risk" by determining how City Council lending or depositing limits are set. Although credit ratings are key components in the management of credit risk, in line with best practice, other sources of information are used, as detailed in **Appendix 5.** In this respect, the City Council also draws on counterparty advice from Arlingclose, the Council's Treasury Management advisors.

It is proposed that:

a) Registered Social Landlords (RSLs) are included within the City Council's lending list for the first time as there are indications that they are increasingly looking to raise finance from bodies other than banks. In addition to a number being credit rated, RSLs come within the regulatory sphere of the Homes and Communities Agency (HCA) as the regulatory body for registered providers of social housing in England. RSLs will be analysed on an individual basis and discussed with the City Council's Treasury Advisors prior to investing. The proposed maximum for investments in each RSL is £6m.

b) The maximum limit for individual counterparties is increased from £10m to £12m, in the light of the generally higher level of balances that the City Council has maintained in recent times. This should help increase the level of investment returns, whilst still limiting exposure to individual counterparties.

Due to some uncertainty over Councils' legal powers to use stand alone financial derivative instruments, and the risks associated with their use, the City Council does not intend to use investment derivatives.

Separately, the City Council holds long-term investments for operational or policy reasons, including in respect of past capital expenditure. These include Birmingham Airport Holdings Ltd and the Coventry and Solihull Waste Disposal Company.

7.8 The Use of Treasury Management Consultants

The authority employs Arlingclose consultants to provide treasury management advice. This includes both the provision of advice on credit risk and information on credit ratings from the 3 rating agencies, referred to above. Regular review meetings with the consultants provide a vehicle through which quality is managed. In addition, within the City Council, senior managers within Finance and Legal Services meet on a periodic basis to review treasury issues, including the use of consultants.

7.9 Treasury Management Staff Training

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

7.10 The Prudential Code

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

<u>Revenue Related Prudential Indicators</u>

Within **Appendix 6** indicators 1 and 2 highlight the revenue impact of the proposed capital programme. These show that the revenue costs of financing our capital expenditure as a proportion of our income from Council Tax and government grant is forecast to increase from 12.99% in 2012/13 to 15.83% in 2015/16. This increase reflects the combined effect of investment under PFI contracts and increased levels of prudential borrowing funded spend. The format of this indicator is restated with the inclusion of government grant in the "net revenue stream". The 2012/13 figures within **Appendix 6** take account of this change. In addition, the impact on a Band D Council Tax of the current proposed programme compared to the programme approved last year is set out in indicator 2. This also shows an increase to 2015/16 for broadly the same reasons.

Capital and Treasury Management Related Prudential Indicators
These indicators, set out in **Appendix 6**, include:

- Authorised Limit (Indictor 6) - This statutory limit reflects the level of borrowing which could be afforded in the short term, but is not sustainable. It is the forecast maximum borrowing need with some headroom for unexpected movements.

- Operational Boundary (Indictor 7) - This is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

- Gross Debt less than "Year 3" Capital Financing Requirement (Indictor 3) - The Council needs to be certain that gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional capital financing requirement for 2013/14 and the next two financial years. The CFR is defined as the Council's underlying need to borrow, after taking into account other resources available to fund the Capital Programme. This revised indicator, which replaces the previous indicator based on net debt, is designed to ensure that over the medium term, gross borrowing will only be for a capital purpose.

- Interest Rate Exposures, Debt Maturity Structure and Investments Longer than 364 Days (Indicators 10, 11 & 12) - The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council’s overall financial position. Indicator 10, Intererest Rate Exposures, is now presented in absolute rather than percentage terms, setting out the maximum amount of exposure of the Council to both fixed and variable interest rates.

- Other indicators highlight Planned Capital Spend (Indictor 4), Actual Debt at 31st March 2012 (Indictor 8) and the adoption of the Treasury Management Code (Indictor 9).

All these prudential limits need to be approved by full Council, but can be revised by Council during the financial year. Should it prove necessary to amend these limits, a further report will be brought to Cabinet, requesting the approval of full Council of the changes required.

7.11 Leasing
The City Council uses operating leases for non-fixed plant and equipment and the Capital Programme includes £0.3m of spend to be resourced from leasing in 2013/14. Leasing will only be used where this is value for money compared with other forms of funding, such as unsupported borrowing.

8. Budget Risks

8.1 In making budget recommendations to members, officers have challenged budgets with a view to ensuring maximum benefit from the resources available. This has included considering the risks with a view to ensuring that budgets and reserves are set at appropriate levels. Inevitably, the Authority carries some risks in agreeing the budget, and the major financial ones for the coming year are set out in summary below. Where appropriate these risks are included within either the corporate or directorate based risk registers and will therefore be monitored through our existing processes for managing risk or where more appropriate through our ongoing budgetary control processes. However it needs to be noted that the pressure on budgets and the risk of overspending in individual areas continues to be very high and will require constant vigilance in 2013/14. A range of issues will be kept under review during the year to help deal flexibly with any problems that may arise, such as efforts to reduce the Council's debt management and cash flow costs.

8.2 **Overall Risks**

In considering the Council's corporate objectives in the context of our financial position, resources have been allocated to meet corporate priorities, and savings have been identified. In these circumstances there are a number of inherent risks which need to be managed:

a) That new resources are used effectively to deliver corporate objectives. Operational plans and quarterly monitoring reports will address this issue specifically,
b) That ongoing spending and income are controlled to budgets. This pressure is certain to increase due to ongoing national economic difficulties and, therefore, compliance with the Council's budgetary control rules remains essential,
c) That treasury management procedures provide for cash to be available, at minimal cost, when required. The strategy and regular monitoring, provide adequate safeguards and this area will continue to be managed at appropriate levels of detail and regularity in 2013/14.

8.3 **Delivery of the Abc Programme** – The combined impact of savings from previously approved abc reviews that increase in value in 2013/14 plus savings of £12m (rising to £44m) from new abc reviews represents a massive challenge to the Council. Some of the individual areas are considered separately below but the overall risk can be measured by the fact that these future savings to be found represent in the region of 12% of the non-grant funded element of the Council's 2013/14 gross expenditure budget. The programme management effort required will continue to demand significant officer time to undertake the detailed work to deliver these savings.

8.4 **Health and Adult Social Care –** This area of activity faces a number of challenges over the coming period. Part of the abc review of Community Services, the single largest review identified by the Council, will have a significant impact on the way in which social care services amongst others are delivered in the city. This at a time when social care services for vulnerable adults continue to be the subject of cost pressure across the country as a result of demographic factors. The successful implementation of this review is essential to enable the Council to deliver balanced budgets going forward. Delivery of social care and health activities will also be dependent on successful partnership working with the health sector (itself undergoing further major organisational changes), integration of Public Health sevices (which are becoming a City Council responsibility funded by £18m of grant funding) and the knock-on impact of national Welfare Reform changes (leading fundamentally to a reduction in overall benefit levels) all of which have April 2013 as the key implementation date.

8.5 **Children's Services –** This area too is one facing a variety of challenges, any one of which would represent a considerable test in less turbulent times. The cost of care for looked after children and for safeguarding other children and young people who cannot otherwise live safely with their families continues to represent a large service and budget pressure. Current work within an existing abc review to is seeking to implement strategies to ensure that appropriate and cost effective responses are implemented to meet the needs of children, young people and their families in Coventry. The service is facing service and financial challenges from the conversion of Coventry schools (mostly secondary schools at this stage) to Academy status. The Government is diverting resources directly to Academies for functions provided previously by the Council in its capacity as the Local Education Authority. This will require the Children Learning and Young People's Directorate to identify the appropriate level of central education services that can be maintained for the remaining Coventry schools within the reduced cost envelope. The Government is also reducing the level of Early Intervention Grant resources available to support fundamental services within the sector. The combined financial impact of these changes will require the service to undertake thorough examination of its budgets in order to deliver the overall scale of the savings required now and in anticipation of further sector changes over the medium term.

8.6 **Local Government Finance Changes** – The new shape of local government finance from April 2013 will see the risk of volatility of Council Tax benefit levels and 49% of Business Rate income fall to local councils rather than Central Government. In addition, the Autumn Statement and final Local Government Finance Settlement have given notice of further cuts to Local Government from 2014/15 onwards. This budget has included some prudent assumptions in order to anticipate adverse fluctuations in these areas but the years beyond 2013/14 will inevitably require the Council to continue the existing path or review and reform to meet the financial challenges ahead.

Two specific points merit further mention. Firstly, as the Government localises decisions such as responsibility for the Council Tax Reduction Scheme and takes decisions to reduce resources for such transfers of responsibility, the Council will not be able to absorb the associated cost pressure within its existing budgets. Therefore, decisions will need to be made to manage costs within the notional resource envelope provided by Government in these specific service areas if the Council is to avoid disproportionate cuts in other services. Secondly, the trend for Local Government finance is likely to reduce the reliance upon central government funding and towards locally generated funding sources. The Council is making significant steps towards securing its Business Rates base through the initiatives such as the Growing Places Fund, Regional Growth Fund and City Deal, a specific abc review on Strategic Regeneration and Business Rate Growth and participation in the Coventry and Warwickshire LEP and Coventry and Warwickshire Business Rate Pool. In these ways it is intended that Coventry will be better placed to sustain and expand its existing Business Rates base.

8.7 **Impact of External Economic Factors –** A variety of factors continues to cause additional service/cost pressures or reduced income for Council services. These include increases, for instance, in housing benefit caseloads and reduced income from fees charged to customers for building control, land charges, planning, building and consultancy services, catering, commercial waste, commercial property and car parking. The impact of the recession and the reduction in some internal budgets (as a result of the transfer of Academy Schools from local authority control for instance) have affected many of these services and prevented them from achieving their income targets. Management actions are being taken in some of these service areas whilst proposals in this Budget are addressing others to help address the material financial risks.

8.8 **New External Funding Arrangements –** The council is involved in major investment projects that involve significant reliance upon external partners and external sources of finance (e.g. Nuckle, Heatline, Regional Growth Fund). These schemes carry some degree of financial risk and a variety of different types of governance arrangements. It is important to recognise that the financial implications of such schemes can change significantly as the schemes progress. Council officers in each of the schemes are vigilant to ensure that the financial implications for the Council are managed properly and that we achieve the best possible value for money through close monitoring and regular reporting to members as schemes progress. Each of the schemes has appropriate risk monitoring arrangements.

8.9 **Welfare and Benefits Reform –** The Government is proposing a complete overhaul of the welfare system at a national level from 2013/14. These reforms will have a significant impact on the income of some people and incorporate changes including the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits, new Personal Independence Payments to replace the current Disability Living Allowance and the restriction of Housing Benefit entitlement for some social housing tenants. The reforms will also mark the transfer of housing benefit services from councils to the Government Department for Work and Pensions. This will affect a significant number of current employees within the Council's Revenues and Benefits Division. In addition, the Government will inevitably reduce local government resources to reflect this transfer of responsibility and there is a risk that this transfer will take a disproportionate amount of funding from the Council.

8.10 There are always risk elements in setting a budget. The authority's financial position is underpinned by the holding of general reserves including the Council's Working Balance which stands at £5.5m currently and which is an essential safeguard against unforeseen risk. The level of reserves available to us as set out in **Section 4.4** provides sufficient financial protection against the risks outlined above within reasonable levels of assessed risk for 2013/14. However, the number and potential impact of the risks outlined above mean that the whole of local government is facing an era of increasing uncertainty and risk for the foreseeable future. For this reason, it is imperative for the Council's future financial robustness that opportunities are considered when they arise to strengthen the Council's balance sheet position. This might take the form of maintaining the level of reserves, increasing the level of provisions for bad and doubtful debt where appropriate and capping the level of prudential borrowing at manageable levels.

9. Comments from the Director of Finance and Legal Services

9.1 Financial implications

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2013/14 revenue and capital budget supported by the Council Tax Report that will be considered alongside this one.

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

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

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

The Local Government Act 2003 also requires the Chief Financial Officer to give assurance on the adequacy of reserves of the Authority for which the budget provides. The final position of reserve balances carried forward into 2013/14 will not be known until finalisation of the 2012/13 accounts. It is likely that the total level of reserves will be maintained at or just below the levels outlined in **Section 4.4.** It is the view of the Director of Finance and Legal Services that the City Council holds an adequate level of reserves to support the recommended budget for 2013/14. This judgement is based on the following:

i) The Council is adequately provided for in terms of its reserves compared to its overall level of budget and better provided for than many other authorities.
ii) The level of insurance reserves is sufficient to meet any likely calls on them (within reasonable limits of assessed risk).
iii) The level of reserves is sufficient to support contributions to 2013/14 directorate-based budgets (including schools) and Corporate commitments both for capital and revenue purposes.
iv) The level of uncommitted Working Balances (2% of net revenue spend) provides a sufficient level of short-term resource to meet any other unforeseen eventualities (within reasonable limits of assessed risk) balanced against pressures to not hold an excessive level of reserve balances.

The Council's policy on reserve usage is set out in the Medium Term Financial Strategy. The overriding aim is to ensure that reserve usage is focused on delivery of the Council's corporate priorities, recognising that reserves can only be used once and that they should not be used to support ongoing expenditure. A number of these reserves are dedicated to specific purposes, such as schools and insurance, and the remainder have been brought together and are scrutinised by the Corporate Management Board in order to ensure the best use possible for the corporate objectives of the authority.

Despite these statements about robustness of estimates and reserves, the scale of savings targets incorporated in the 2013/14 budget and the challenges facing the Council in the next few years is unprecedented and will require regular monitoring and potentially corrective action.

9.2 Legal implications

This report reflects the Council's statutory obligations in relation to setting a Council Tax Requirement in line with Section 31A of the Local Government Act 1992 (as amended). The report also meets the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place in line with Section 25 of the Local Government Act 2003.

10. Results of consultation undertaken

10.1 The proposals in this report have been subject to eight weeks public consultation ending on the 5th February2013 including separate meetings with the Trades Unions. The details arising out of this consultation period are reported in **Appendix 1** and in broad terms the consultation outcomes support the main thrust of the spending choices and priorities in the final proposals. The changes that have been made between the Pre-Budget Report and this report are detailed in **Section 4.2.**

11. Other Implications

11.1 **How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?**

The Council will be faced with very tight resource constraints as it enters the period covered by the next Spending Review. The Council has continued to take an approach to identify savings options that are intended to have as little adverse impact as possible on the quality and level of service provided to the citizens of Coventry or the key priorities of the Sustainable Community Strategy and Council Plan. It is inevitable that this approach will come under great pressure within and beyond the current planning horizon and the Council will have to be very clear about its priorities. The forthcoming budget will be shaped very much by the existing key policy priorities: jobs and growth, better streets and pavements, to support and celebrate young people and to protect the most vulnerable residents.

11.2 **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. Delivery of the budget and any corrective action required will be achieved through our ongoing monitoring processes. The key risks and the Council's response to these are set out in **section 8**.

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

In excess of 800 individuals have now left the organisation on early retirement and/or voluntary redundancy terms in the period covered by the current Spending Review. It is certain that more individuals will leave over the next few years as the Council responds to the financial pressures that face it and the need to implement the next phase of its abc Programme. It is inevitable that the Council will employ a reducing number of employees as a result of funding reductions, the Council is continuing to manage the staffing impact with a focus on redeploying displaced staff, avoiding compulsory redundancies where possible and minimising overall redundancy and early retirement costs. All deletions or changes to jobs arising from the implementation of budget decisions are being managed through the appropriate City Council Human Resources policies and procedures.

11.4 **Equalities / EIA**

The majority of savings identified in the Pre-Budget Report were largely technical in nature or related to abc Fundamental Service Reviews for which equality impacts will be assessed prior to the relevant decisions being taken. The Council has started to identify potential equality impact issues and **Appendix 2** provides further details on the equality issues for each proposal and the process for analysing and addressing them. One of the issues raised within the budget consultation exercise (see **Section 10** and **Appendix 1**) was that of impact of recession and government policy on groups in the city, of which the Council is undertaking on-going analysis.

11.5 **Implications for (or impact on) the environment**

The district heating system proposed under the Heatline Project within the Capital Programme will enable buildings to be heated using a low carbon source of energy thus reducing the total carbon dioxide emissions.

11.6 **Implications for partner organisations**

In order to ensure that the best possible value for money is achieved the Council is committed to reviewing or renegotiating arrangements with our external partners. Some of this activity is already well advanced and is resulting in the Council obtaining higher contributions from partners in the commercial sector (e.g. the Coventry and Solihull Waste Disposal Company). Continuous review of all other arrangements through the Abc review of Purchasing and Commissioning is likely to affect other partner organisations in due course as the Council seeks to ensure that it derives maximum effectiveness of its spending decisions across the full range of its external relationships in the public, private and third sectors.

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