Coventry City Council

Public report
Cabinet

Cabinet 22nd February 2022
Council 22nd February 2022

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources – Councillor Brown

Director Approving Submission of the report:
Chief Operating Officer (Section 151 Officer)

Ward(s) affected:
All

Title:
Budget Report 2022/23

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2022/23, the Capital Programme for 2022/23 to 2026/27 and the Council's Capital, Treasury Management and Commercial Investment Strategies.

Executive Summary:
This report follows on from the Pre-Budget Report approved by Cabinet on 14th December 2021 which has since been subject to a period of public consultation. The proposals within this report will now form the basis of the Council's final revenue and capital budget for 2022/23 incorporating the following details:

- Gross budgeted spend of £749m (£25m decrease from 2021/22).
- Net budgeted spend of £237m (£6m and 3% lower than 2021/22) funded from Council Tax and Business Rates less a tariff payment of £19.3m due to Government.
- A Council Tax Requirement of £153.4m (£7.1m and 5% higher than 2021/22), reflecting a City Council Tax increase of 2.9% detailed in the separate Council Tax Setting report on today's agenda.
- A number of new expenditure pressures, policy priority proposals and technical savings proposals.
- A Capital Strategy including a Capital Programme of £145.1m including expenditure funded by Prudential Borrowing of £23.9m.
- An updated Treasury Management Strategy, Capital Strategy and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2022/23 Local Government Finance Settlement. Although the Council's core funding position broadly matches that of 2021/22 the Settlement included some significant new one-off grants that will help it manage the pressures it faces, in particular in relation to social care and the wider costs of inflation. The position after 2022/23 remains uncertain despite the Government's medium-term spending plans being set out in the Spending Review published in October 2021. A review of the local

government financial allocation model will begin in 2022 although it is not yet certain whether this will be completed in time for 2023/24 Budget Setting. As a result it is impossible to provide a robust medium term financial forecast at this stage and the Council has provided some prudent planning figures for future years. Initial assumptions indicate the likelihood that there will be a substantial gap for the period following 2022/23. The view of the Chief Operating Officer is that the Council should be planning for such a position.

The Pre-Budget Report was based on an increase in Council Tax of 2.9% and this position has been maintained for the final proposals in this report. This incorporates an increase of 1.9%, which is within the Government's limit of 2% above which a referendum would need to be held plus a further 1% Adult Social Care (ASC) Precept line with Government expectations. The Precept was trailed in the Autumn Budget Report and Spending Review 2021 and included in the Local Government Settlement as the means for councils to maintain their "core spending power". The precept is essential to enable councils including Coventry to manage increases in the costs of care. In total, the rise in Council Tax bills will be the equivalent of around £1 a week for a typical Coventry household including the rises in the precepts for Police and Fire.

The Local Government Finance Settlement has helped the Council to close the significant financial gap which it had at the start of the Budget process. Further measures include the identification of additional Council Tax resources and new commercial and other income streams. All these proposals are set out in detail in Appendix 1. Where these are different to the proposals that were included in the Pre-Budget Report, this has been indicated within the appendix. There are no new service savings required as a result of this budget.

The proposals do not provide the Council with a balanced medium term position beyond 2022/23. The Council's current medium term bottom line incorporates a combination of future inflationary and service pressures and the fall-out of uncertain specific grant resources. Some of the future funding assumptions are speculative at this stage and will be revised through 2022 as any changes to local government finance become clearer. The initial approach will however be dictated by an intention to review and update technical information as it becomes available to the Council and to identify further efficiencies from, or generate further income within, Council services. The Council is seeking currently to update its policy priorities and these will included as part of the 'One Coventry Plan' which will be approved later this year. Through 2022 it will also refine and implement a programme of activity designed to review how best to deliver its services, improve integration between some of them and optimise the effectiveness of others.

Whatever the future holds for national changes to local government finance the Council remains committed to strengthening its own financial self-sustainability and the need to support the vibrancy and growth of the city. Over the coming year the Council will continue to invest in and pursue activities that strengthen its existing financial interests and those of the city although this will be done within the restrictions imposed by Government in relation to access to borrowing from the Public Works Loans Board. The Council's view is that a positive and ambitious strategy is preferable to a more passive approach which would leave the Council more vulnerable to central government and the wider pressures on local government services. The Council's existing financial resilience and its belief in the city's long-term economic strength mean that this remains an ideal time to commit to Coventry's reset and recovery.

The recommended Capital Programme proposals are a key part of the Council's approach and amount to £145.1m in 2022/23. The proposals reflect the Council's ambitions for the city and include: extensive highways infrastructure works including specific schemes relating to air quality, Pinchpoint schemes and the Housing Infrastructure Fund (HIF); work moving towards completion of the second office building within the Friargate district of the city; the Council's share of capital loan financing to progress the construction phase of the city's new Materials Recycling Facility; continuation of the A46 link road to the south of the city and initial stages of the City Centre South redevelopment. Over the next 5 years the Capital Programme is estimated to be £365m as part of on-going massive investment delivered by and through the City Council.

The annual Treasury Management Strategy, incorporating the Minimum Revenue Provision policy, and also the Commercial Investment Strategy are set out. These cover the management of the Council's treasury and wider commercial investments, cash balances and borrowing requirements. These strategies and other relevant sections of this report reflect the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code and Prudential Code for Capital Finance, as well as statutory guidance on Minimum Revenue Provision (MRP) and Investments.

The report also includes recommendations relating to the procurement of a renewed Microsoft Enterprise Agreement due to the need to put this in place by 1st April.

Recommendations:

That Cabinet is requested to:

(1) (i) Authorise the procurement of a new three year contract for a reseller for the renewal of the Council's Microsoft Enterprise Agreement for the 3 year period from 1st April 2022 (per paragraph 2.2.2).

(ii) Delegate authority to the Chief Operating Officer and the Director of Law and Governance to agree the contract award following the procurement process.

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

Council is recommended to:

(1) Approve the Budget proposals in **Appendix 1**.

(2) Approve the total 2022/23 revenue budget of **£749m** in **Table 1** and **Appendix 3,** established in line with a 2.9% City Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

(3) Note the Chief Operating Officer's (Section 151 Officer) comments confirming the adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(4) Approve the Capital Strategy incorporating the Capital Programme of £145.1m for 2022/23 and the commitments arising from this programme totalling £365.5m between 2022/23 to 2026/27 detailed in **Section 2.3** and **Appendix 4**.

(5) Approve the Council's Treasury Management Strategy and Minimum Revenue Provision Statement for 2022/23 in **Section 2.4** and the Prudential Indicators and limits described and detailed in **Appendix 6a**, the Commercial Investment Strategy for 2022/23 in **Section 2.5** and **Appendix 5 and** the Commercial Investment Indicators detailed in **Appendix 6b**.

List of Appendices included:

Appendix Number	Title
1	Budget Financial Proposals – Changes to Base Position
2	Consultation Responses
3	Summary Revenue Budget
4	Capital Programme 2022/23 to 2026/27
5	Commercial Investment Strategy
6a&b	Prudential and Investment 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 – February 22nd 2022

Budget Report 2022/23

1. Context (or background)

1.1 This report seeks approval for the 2022/23 Revenue Budget and corresponding Council Tax rise, Capital Programme and Strategy, Treasury Management Strategy, Commercial Investment Strategy and associated investment and prudential indicators. The report includes detail of the resources included within the 2022/23 Government funding allocation and forecasts of the Council's medium term revenue financial position. The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 14th December 2021. They have been established in line with the Council's current One Coventry Council Plan and the Medium Term Financial Strategy.

1.2 The Government announced the Final Local Government Finance Settlement for 2022/23 on 7th February 2022. The settlement provides a core funding level that is consistent with recent years but which also includes several significant additional grant funding streams. In total these improve the Council's financial position compared with that assumed at the start of the Budget process, which anticipated funding reductions going forward. The final position is also improved on that included in the Pre-Budget Report. No further resources have been announced to cover Covid related losses for 2022/23 and the budget position shown assumes that any continuing and legacy impacts of Covid will be managed within the Council's financial envelope. It is not clear whether the Government's planned changes to the local government finance system will be implemented in full or in part for 2023/24 and until greater certainty is provided the Council will plan on a prudent basis using the best estimates available. At this stage the Council's planning estimates do not assume continuation of all the grant funding streams announced for 2022/23.

1.3 The Government's Autumn Budget and Spending Review 2021 indicated at a headline level that local government funding would be broadly flat after 2022/23. This provides a degree of assurance that the period of year on year local government funding reductions has come to an end. However, the scope for variations in the future allocation methodology, the distribution of specific grants and the impact of future social care changes mean that a great deal of uncertainty still exists. What is clear though is that resource losses suffered by the Council since 2010 mean that it is starting from a much lower financial base than it once did, at a time when demographic and demand led pressures have grown across a range of services. In response, the Council is planning to identify more efficient and coordinated ways of working across a range of services in future under its One Coventry approach. This will include making best use of digital opportunities, continuing to pursue commercial options where these arise and are in line with Government regulation and sector guidance, and taking a more co-ordinated approach to how some services are delivered across the Council and the city.

1.4 At the start of the current Budget process the Council faced a budget deficit of £15m for 2022/23. This position has been made worse by forecast financial pressures for the year ahead, including those caused by legacy impacts of the Covid pandemic. Following the Spending Review announcement in October the Council changed its forecasts of Government funding levels which were increased compared with previous forecasts. Although these improved the financial position greatly, the Pre-Budget Report still included a financial gap of £3m despite the incorporation of new technical savings proposals and the maximum increases permissible for Council Tax and the Adult Social Care precept. The subsequent Local Government Finance Settlement's inclusion of additional specific grant resources has allowed a balanced Budget position to be achieved.

1.5 For 2021/22 councils nationally had the flexibility to increase Council Tax by up to 2% without holding a local referendum on the matter with further ASC precept flexibility of 3%.

For 2022/23 the Council Tax referendum limit has been maintained at 2% and the ASC precept limit set at 1%. The Pre-Budget Report was approved on the basis of a Council Tax rise of 2.9% - within the parameters of these flexibilities - and the budget being proposed in this report maintains this position.

1.6 The Council and city are in the midst of a period of large and sustained programme of infrastructure and other capital investment works. The next phases of this are set out in the Capital Programme in section 2.3 and Appendix 4. A large part of the Programme reflects the Council's success in attracting external grant funding into the city, working with the West Midlands Combined Authority to secure resources as part of the Devolution Deal and developing local self-financing projects within the city. The scale and breadth of this programme continue to be very large in a historical context. Council has been informed previously of the significant challenge in managing the number and size of complex and overlapping projects within a relatively compact city and tight timescales, although for the most part the Council's capital projects have maintained good momentum. In terms of the wider Capital Programme it is worth emphasising that the vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget.

1.7 The overall Council Capital Programme is estimated to be c£365m over the next 5 years. The city's aspiration continues to be to spearhead growth, economic development and job creation in the city and greater self-sufficiency for the City Council through the generation of higher tax revenues, wider economic prosperity and lower deprivation levels amongst citizens. The national economic and political context, including the stucture of any future Business Rates Retention model, will play a factor in the degree to which this can be achieved over this period but the Council will continue to explore a range of options that increase the degree of control that it has over its own financial destiny.

1.8 Whilst local authorities have been required to have a treasury management strategy, more recent statutory government guidance has extended these requirements to other commercial investments, including service loans, shares and investment properties. The guidance seeks to ensure that authorities have strong commercial risk management arrangements and that such investments are proportionate, relative to the size and financial capacity of the authority. The Council's arrangements in this regard are set out in the Capital Strategy, Commercial Investment Strategy and associated investment and prudential indicators referred to above.

1.9 Revenue Resources

1.9.1 The Council's total revenue expenditure is funded from a combination of resources as set out in the table below:

Table 1: Funding of Revenue Budget

2021/22 £000s		2022/23 £000s	Change from 21/22 £000s	Change from 21/22 %
(146,276)	A: Council Tax Requirement	(153,394)	(7,118)	5% Increase
(117,377)	B: Business Rates Income	(103,328)	14,049	12% Decrease
19,841	C: Tariff	19,300	(541)	3% Decrease
(435,447)	D: Specific Grants	(402,668)	(32,779)	8% Decrease

(94,977)	**E: All Other Income**	**(108,743)**	**(13,766)**	**14% Increase**
(243,812)	**Funding of Net Budget (A + B + C)**	**(237,422)**	**6,390**	**3% Decrease**
(774,236)	**Funding of Gross Budget (A + B + C + D + E)**	**(748,833)**	**25,403**	**3% Decrease**

Line A above reflects the city Council Tax increase of 2.9% and a higher tax-base. In addition to other Fees and Charges, line E includes Council Tax and Business Rates Collection Fund surpluses/deficits, dividend payments and contributions from reserves.

1.9.2 Limited information is available currently about the level of resoures that will be available to the Council in future. This will be subject to decisions over the Government's spending plans and any changes in the Local Government Finance model which the Government is continuing to assess. The Council's medium term financial forecast reflected in Appendix 1 assumes that some of the one-off grants available in 2022/23 will not continue into 2023/24 although this cannot be used as a reliable indication at this stage.

1.9.3 The Council is in a similar position to many councils having experienced significant reductions in the resources it received from Government since 2010. In efforts to maximise the benefit realisable within the current system Coventry is currently a member both of the Coventry and Warwickshire Business Rates Pool and the West Midlands Business Rates Pilot, the latter of which enables the Council to retain 99% of Business Rates. Both these mechanism have enabled the Council to improve its overall resource position by a modest degree over recent years.

1.9.4 As a result of lower resource settlements from Government and 99% Business Rates retention the Council needs to make a tariff payment <u>to</u> Government in contrast to the top-up payment that it used to receive <u>from</u> Government under previous funding arrangements. This tariff payment now stands at £19.3m for 2022/23 which is marginally lower than the previous year. This indicates that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates (plus specific grants) than it requires for its assessed spending needs. This position reflects a combination of cuts to Government funding for local government and to a limited degree, indications that the Council has a degree of self-reliance (in relative terms compared to other areas) and is able to fund its own spending requirements. It is important to treat this assessment with caution given that the city continues to have some high levels of need and areas of deprivation. Nevertheless, it emphasises the importance for the Council of generating greater resilience and prosperity in the local economy in order for the city to be able to support itself under the Government's intention for local government to become more self-sufficient.

1.9.5 In overall terms budgeted specific revenue grant funding is decreasing between 2021/22 and 2022/23 from £435m to £403m. This reduction includes a lower figure for Housing Benefit Subsidy (£69m) than the historically higher figure assumed last year (£114m). The other large allocations forecast are Dedicated Schools Grant (£170m), adult social care funding (£45m), grants relating to Business Rates (£25m), Public Health (£23m), Private Finance Initiatives (£9m), Pupil Premium (£10m) and Adult Education funding (£5m).

1.9.6 The Council's capital and revenue programmes, including treasury and commercial activities, are managed in parallel through consolidated planning, in year monitoring and year end processes, within the context of the Medium Term Financial Strategy. The

Constitution, including the Financial Procedure Rules, set out thresholds that determine the level at which financial approval is required by officers or the appropriate member forum, up to Council. Central to the approach is the the principal that recommendations are supported by appropriate business cases.

2. Options considered and recommended proposal

2.1 Section Outline

2.1.1 This section details the specific proposals recommended for approval within the revenue budget. Section 2.2 below outlines the changes that have occurred to the financial proposals since the Pre-Budget Report in December. The full list of final proposals is provided in **Appendix 1.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 3**. These are based on a City Council Tax rise of 2.9% which includes an Adult Social Care Precept of 1%.

2.1.2 The report seeks approval for a 2022/23 Capital Programme of £145.1m compared with the initial 2021/22 programme of £220.4m. The Programme is considered in detail in **Section 2.3** and **Appendix 4**.

2.1.3 The report is also required formally to seek Council approval for the Treasury Management Strategy (**Section 2.4),** the Commercial Investment Strategy **(Appendix 5)** and the Prudential and Investment Indicators (**Appendix 6a and 6b**).

2.2 Revenue Budget

2.2.1 The budget includes the saving and expenditure proposals included within the Pre-Budget Report approved by Cabinet on 14th December 2021 as a basis for Pre-Budget consultation. A line-by-line impact of how these proposals affect the base budget is given in **Appendix 1** with an indication of where there have been changes to the figures included within the Pre-Budget Report. The summary and detailed changes since the Pre-Budget Report are shown in tables 2 and 3 below. These changes enable the Council to deliver a balanced budget for 2022/23 but indicate that a financial gap will arise based on known current conditions for subsequent years.

Table 2: Summary Changes to Pre-Budget Report Position

	2022/23 £m	**2023/24 £m**	**2024/25 £m**
Pre-Budget Report Position	**3.1**	**8.8**	**12.6**
Resources	(3.9)	7.3	7.8
Expenditure & Income Pressures	0.8	0.8	0.8
Directorate & Technical Savings	0.0	0.0	0.0
Policy Priorities	0.0	0.0	0.0
Final Budget Position*	**0.0**	**16.9**	**21.2**

Table 3: Detailed Changes in Proposals Compared with the Pre-Budget Report Position

	Appx 1 Line Ref	2022/23 £m	2023/24 £m	2024/25 £m
Pre-Budget Report Position		**3.1**	**8.8**	**12.6**
SR2021 Employer National Insurance Contributions	2	1.5	1.5	1.5
Council Tax and Business Rates Resources Position	3	0.1	1.5	2.3
Adult Social Care Precept	4	(0.1)	(0.2)	(0.5)
New Homes Bonus	5	0.7	0.0	0.0
2022/23 Social Care Grant	6a	(4.3)	0.0	0.0
SR2021 Local Government Settlement (2022/23 Services Grant)	7	(1.1)	4.5	4.5
Lower Tier Services Grant	7a	(0.6)	0.0	0.0
Inflation	10	0.7	0.0	0.0
Children's Services	11	0.0	0.8	0.8
Final Budget Position		**0.0**	**16.9**	**21.2**

2.2.2 These budget proposals include additional investment for ICT licensing and assurance requirements (line 15 of Appendix 1). A proportion of this investment relates to Microsoft licensing as part of the Council's Enterprise Agreement renewal. This contract covers the Council's use of the core Microsoft software packages for the three years from 1st April 2022. The decision has been brought to Cabinet within this report due to the scale of the procurement being in excess of £1m per annum and the need to put in place arrangements to renew these licences by 1st April 2022. As a result there are recommendations for Cabinet to authorise the procurement and to delegate authority to officers to agree the contract award following the procurement process.

2.3 Capital Strategy and Expenditure Programme

2.3.1 Under the Prudential Code authorities are required to produce a Capital Strategy that covers a broad range of capital related issues including: capital expenditure and resourcing; borrowing and liabilities, and their repayment through Minimum Revenue Provision; loan commitments and guarantees; and treasury and commercial investments. These areas are covered either in this section or elsewhere in this report where appropriate (e.g. the Treasury Management Strategy or Commercial Investment Strategy).

2.3.2 In **Appendix 4** there are proposals for a Capital Programme of £145.1m which contains a number of strategically significant schemes. The Programme does not currently include the indicative City Region Sustainable Transport Settlement (CRSTS) programme for which final approval is pending with more detail explained in 2.3.3. The 2022/23 Programme shown compares with the current projected 2021/22 programme of £223m. A full 5-year position is detailed in **Appendix 4** with the main planned expenditure as follows:

- £33.4m of 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, Palmer Lane de-culverting and the delivery of the A45 Overbridge infrastructure at Eastern Green from the Housing Infrastructure Fund (HIF).
- £20.7m to implement the local plan for NO2 (Nitrogen Dioxide) Air Quality compliance for the city. The package of measures includes delivering works to Coundon Cycleway, Arches Spon End Pinchpoint, Ring-Road Junction 7 and Upper Hill Street. There are a range of other projects that complement this package of measures by encouraging the uptake of zero emission vehicles. These include the installation of one of the most extensive networks of electric vehicle charging points in the country. These measures are further supported by the commencement of delivering the Binley Cycleway from the City Centre to Walsgrave Hospital.
- £47.8m for the second phase (Building 2l) of the Friargate Business District and the redevelopment of a major part of the City Centre
- A £16.3m programme within the Education and Skills Portfolio, seeing the continuation of the Education One Strategic Plan and investment in secondary school provision.

2.3.3 The CRSTS programme has been established by Government to provide a five year capital funding settlement for Mayoral Combined Authorities for transport, covering the period 2022-27. The West Midlands Combined Authority (WMCA) has provisionally been allocated £1.05 billion for the five year period, and the WMCA Board, on 14th January 2022, approved the CRSTS programme for submission to Government. This will be subject to further negotiation with Government, with final funding approval expected in March 2022.

For Coventry, the following specific schemes are included in the WMCA's CRSTS programme as submitted to Government:

- Very Light Rail Regional Programme – total allocation of £71.7 million, of which £54 million is specifically for the delivery of the Very Light Rail City Centre Demonstrator route within Coventry.
- Park and Ride Estate Development – total allocation of £4.5 million which will include funding for the Tile Hill Station Park and Ride improvement scheme.
- Foleshill Transport Package - £4.5 million allocation towards a package of transport improvements focussed on the Foleshill Road corridor.
- Coventry South Sustainable Transport - £17 million allocation towards a package of transport improvements focussed on the London Road corridor supporting the Gigafactory and other developments planned for the Coventry Airport area and within the London Road corridor.

Once Government approval has been received, and subject to any amendments to the CRSTS programme that Government may direct, the Council will begin to draw down funding from the WMCA according to the agreed process for doing so. At this point the specific schemes will be added to the 5 year capital programme through the quarterly finance reporting cycle.

In addition to these schemes, funding is also allocated within the CRSTS programme for Highway Maintenance and Structures, with an 18% uplift on funding currently allocated for this programme, and for the Local Network Improvement Plan (previously the Integrated Transport Block funding). These funding streams will be allocated by the WMCA to the constituent local authorities on the same pro-rata basis as currently adopted and have been built into the 5 year capital programme. In order to make best use of the Council's capitalised highways repairs budget, it has taken delivery of a 'Pothole Pro' machine. Once the testing/training phase is complete this will deployed to deliver more efficient Pothole repairs across the city and maximise the effectiveness of the budget available.

2.3.4 The 2022/23 Programme requires £23.9m of funding from Prudential Borrowing, including schemes previously approved for Lentons Lane Cemetery, replacement vehicle programme, Collection Centre design costs, secondary schools extension and the newly approved funding for the refurbishment and potentital new acquisition provision for Children Homes. Over the course of the future 5 year programme set out, the Council is set to incur £74.6m of borrowing. This borrowing has been the subject of previous decisions and will, overwhelmingly, be supported by business cases that have identified income streams to cover the capital financing costs, all of which is factored into the Council's medium term financial plans. In comparison to the Council's existing level of borrowing this adds to the Council's external indebtedness.

2.3.5 In addition to the opportunities to receive additional external funding, the Chief Operating Officer (Section 151 Officer) will continue to explore options to fund the programme in the most appropriate way depending on the balance of resources, including using capital receipts to reduce the overall need to borrow. In reality, any displacement of borrowing from this source is likely to be at a comparatively low level based on the current level of available receipts. In addition to the Prudential Borrowing referred to above, the other main source of funding for the 2022/23 Capital Programme is £111.9m of Capital grants as follows.

Table 4: Capital Grant Funding

Grant	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £m
Disabled Facilities Grant	5.7	5.5	5	4.2	4.2	**24.5**
Department for Transport	14.2	0.0	0.0	0.0	0.0	**14.2**
Department for Communities & Local Government	7.4	0.8	0.0	0.0	0.0	**8.3**
Education Funding Agency	5.7	9.0	4.7	4.4	2.4	**26.3**
West Midlands Combined Authority	66.8	54.1	7.6	23.4	6.1	**157.9**
Ministry of Housing, Communities & Local Government	10.2	0.0	0.0	0.0	0.0	**10.2**
All Other Grants & Contributions	1.8	0.0	0.0	0.0	0.0	**1.8**
TOTAL PROGRAMME*	**111.9**	**69.4**	**17.3**	**32.0**	**12.7**	**243.3**

*Totals are subject to minor rounding differences.

2.3.6 The programme is based on an approach to the capitalisation of expenditure set out within the acounting policies section of the Council's Statement of Accounts. This approach is based on proper accounting practices, amended as required by local government capital finance regulations. In broad terms assets are treated as capital where they have a useful life of longer than one year and are not intended for sale during the normal course of business.

2.3.7 **Forecast Capital Expenditure and Resourcing Programme**

The Programme included has been evaluated to identify a likely best profile of spend based on current knowledge of individual projects. In part this is to maximise the amount of programmed expenditure to meet expectations of grant funding bodies but there are also local expectations to inject momentum into the programme to ensure sufficient progress is made ahead of other developments. In overall terms, 2022/23 will continue the relatively high level of programme spend witnessed in recent years and involves a number of complex and overlapping projects within a relatively compact city, delivery of which will once again represent a significant challenge for the Council. Section 5.1.4 recognises the risks inherent in this. Given the innovation involved in some of the projects, the milestones that need to be achieved to satisfy grant funded bodies and the potential for delay given the interdependency of some schemes, it should be recognised that the profile for some schemes could shift significantly between years, with the potential for expenditure being rescheduled into later periods.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2022/23 as a result of the 2021/22 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 5: 2022/23 – 2026/27 Capital Programme (Expenditure & Funding)

Portfolio Expenditure	2022/23 £’000	2023/24 £’000	2024/25 £’000	2025/26 £’000	2026/27 £’000	Total £’000
Policy and Leadership	1,535	0	0	0	0	**1,535**
Children & Young People	2,613	200	200	200	200	**3,413**
Education & Skills	16,176	9,147	4,838	32,821	2,414	**65,396**
Jobs & Regeneration	63,078	48,919	3,969	58,637	0	**174,603**
City Services	55,784	11,692	9,728	7,633	8,117	**92,953**
Adult Services	4,710	5,450	5,000	4,182	4,182	**23,524**
Public Health & Sport	172	22	10	6	2,737	**2,947**
Housing & Communities	1,075	35	0	0	0	**1,110**
TOTAL PROGRAMME	**145,143**	**75,465**	**23,745**	**103,479**	**17,650**	**365,481**

Funding	2022/23 £’000	2023/24 £’000	2024/25 £’000	2025/26 £’000	2026/27 £’000	Total £’000
Management of Capital Reserve	237	200	200	200	200	**1,037**
Capital Unringfenced Receipts	178	125	125	0	0	**428**
Capital Ringfenced Receipts	920	0	0	0	0	**920**
Prudential Borrowing	23,906	2,711	3,108	42,819	2,043	**74,587**
Grant	111,884	69,385	17,315	31,998	12,670	**243,251**
Capital Expenditure from Revenue	6,506	2,987	2,987	0	0	**12,480**
Section 106	1,512	57	10	28,462	2,737	**32,778**
TOTAL PROGRAMME	**145,143**	**75,465**	**23,745**	**103,479**	**17,650**	**365,481**

Based on current information the indicative programme above will run at a reduced level n the future although this could change significantly based on the indicative CRSTS Programme above, the future shape and level of the Government's Shared Prosperity Fund (the replacement for former European Funds) and any funds determined through other initiatives, for instance through the Government's levelling-up agenda.

2.3.8 Generation of Capital Receipts

In order to generate resources to fund new capital investment the Council is able to dispose of property assets and will seek to do so in particular where these are surplus to operational requirements or yield low or no rental income. As capital receipts, the proceeds from such disposals can only be used to fund new capital expenditure or repay debt, but cannot ordinarily be used to fund revenue expenditure. The Council has sought to use its receipts previously both to fund the purchase of new income generating assets or to support priority capital projects. In 2021/22 following changes to the rules governing the Public Works Loans Board – the Government's main vehicle to provide long-term lending to local government – the Council made the decision not to purchase further income generating assets, thus enabling it to continue to have access to the PWLB. However, capital receipts can still be used to support existing projects. The following table sets out the Council's current forecast of capital receipts flows and expenditure commitments although these are subject to change given the nature of activity in this area.

Table 6: Forecast Capital Receipts

	2022/23 £000s	**2023/24 £000s**	**2024/25 £000s**
Forecast (Receipts Brought Forward)/Receipts Shortfall	(32,658)	(22,630)	(22,755)
Forecast New Receipts	(2,026)	(250)	(9,805)
Total Receipts	**(34,683)**	**(22,880)**	**(32,560)**
Commitments	12,053	125	125
Receipts Shortfall/(Receipts Carried Forward)	**(22,630)**	**(22,755)**	**(32,435)**

2.3.9 Guarantees, Loan Commitments and Other Liabilities

The Council currently provides a small number of guarantees to third parties, for example in respect of long term pension liabilities. One benefit of this type of arrangement is that a smaller pension contribution can be secured for the organisations in question, as a consequence of the Council's longer term credit strength. Such guarantees can be historic, arising through the Council's past relationships with those organisations. In providing guarantees the Council is accepting risk, and each is reviewed on a case by case basis, taking into account the overall level of risk exposure.

Where the Council has commited to make a loan, but has yet to make the advance, for example in making a forward treasury investment or in agreeing a loan facility to be advanced over time, such loan commitments are taken into account in managing the Council's overall investment exposure.

The Council's long term liabilities comprise two main elements: the long term borrowing set out in the Treasury Management Strategy (section 2.4) and the pension fund liability of £743m (31st March 2021). The pension deficit crystalises over time as payments to members become due. However, the net position on the pension fund tends to fluctuate year on year, being dependent on a number of variables, including life expectancy levels, inflation and investment returns. Contributions are set in order to manage the deficit over the longer term, reflecting the nature of the liability.

2.3.10 Capital Financing Requirement
Taking into account the planned programme set out in the Table 5 above, the estimated Capital Financing Requirrement (CFR), representing the underlying need to borrow for capital investment purposes, is detailed in the following table below:

Table 7 : 2022/23 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
Opening CFR - 1st April	**503.2**	**513.2**	**518.0**	**500.5**	**481.9**
Capital Spend met form borrowing	27.7	23.9	2.7	3.1	42.8
Minimum Revenue Provision	-16.0	-17.3	-18.2	-19.5	-19.6
Other	-1.7	-1.8	-2.0	-2.2	-2.4
Closing CFR - 31st March	**513.2**	**518.0**	**500.5**	**481.9**	**502.7**

Over the 5 years from 1st April 2021, it is forecast that the CFR will reduce marginally reflecting the the level of the borrowing required to meet the capital programme, less amounts set aside to repay debt as Minimum Revenue Provision (MRP).

2.3.11 Revenue Budget Implications
The revenue cost of the proposed Capital Programme, in the form of net interest on debt, plus the amount set aside as MRP to repay debt is the total general fund capital financing cost. It is forecast that these financing costs will increase from £34.7m in 2021/22 to £38.1m in 2024/25, reflecting the increased capital expenditure to be resourced by borrowing. Due to the long term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the coming years will extend for up to 50 years, in line with the Council's Minimum MRP policy set out in Section 2.4.4.

2.3.12 The Section 151 Officer considers that the capital strategy, including the capital expenditure programme and resourcing as set out in this report, is prudent, affordable and sustainable, and that the level of borrowing and commercial investment income are proportionate to the resources available to the Council.

2.4 Treasury Management Strategy Statement 2022/23

Introduction
Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the

Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

The Cipfa Code 2017 Edition has been subject to consultation over 2021 and a new 2021 Edition is set to be published. The main revisions to the Code focus on strengthened requirements for skills and training and for investments that are not specifically for treasury management purposes.

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three main reports are;

- A Treasury Management Strategy (This report) – This provides an outline of how investments and borrowings are to be organised over the next three years. The report includes an investment strategy and a range of Prudential Indicators to measure and manage the Council's exposure to treasury management risks. The indicators over the period 2021/22 to 2024/25 for the treasury and capital programme management is set out at **Appendix 6a.**

- A Mid-Year Treasury Management Report – This identifies if any amendment to the Prudential indicators is necessary and states whether the treasury operations are meeting the strategy or whether any policies require revision.

- An Annual Outturn Report – This provides details of the actual performance of the prudential and treasury indicators compared to estimates within the strategy.

- In addition to these reports the Cabinet and the Audit and Procurement Committee receive quarterly updates through budget monitoring reports to update on treasury activity.

The Local Authorities (Capital Finance and Accounting) Regulations 2003, require the approval of a Minimum Revenue Provision (MRP) statement setting out the Council's approach. The proposed approach is set out at Section 2.4.4.

2.4.1 <u>Economic Environment</u>

The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23. After increasing interest rates from 0.10% to 0.25% in December 2021, the Monetary Policy Committee (MPC) on 3 February 2022 agreed to further raise bank interest rates from 0.25% to 0.50%. Recent rising inflation prompted the moves as the MPC raised concerns about strong labour market performance and persistent increases in prices, particularly energy costs. UK Consumer Price Inflation (CPI) for December 2021 registered 5.4% year on year, up from 5.1% in the previous month.

In terms of credit outlook, the improved economic picture during 2021, led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Council's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook. In terms of Interest rates, the Council's treasury management advisors, Arlingclose, are forecasting that BoE Interest Rates will continue to rise in calendar Q1 2022 to subdue inflationary pressures, with other experts predicting bigger rate rises. Gilt yields are expected to remain low in the medium-term with averages ranging from 0.65% (5 years) to 1.15% (20 years). However, there will almost certainly be short-term volatility due to economic and political uncertainty and events.

2.4.2 Coventry City Council Position

On 31 March 2022, the Council will hold an estimated £327.2m of long-term borrowing and £40m of treasury investments. This is set out in further detail in the tables below:

Table 8: Estimated Long Term Borrowing at 31 March 2022

	31 March 2021 Actual £m	31 March 2022 Forecast £m
External borrowing:		
Public Works Loan Board (PWLB)	190.4	190.4
Money Market Loans (Incl. LOBO's)	38.0	38.0
Stock Issue	12.0	12.0
West Midlands Combined Authority	18.0	18.0
Other	0.4	0.4
Total external borrowing	**258.8**	**258.8**
Other long-term liabilities:		
Private Finance Initiative	62.8	59.9
Leases	0.0	0.0
Transferred Debt (other authorities)	10.1	8.5
Total other long-term liabilities	**72.9**	**68.4**
Total gross external debt	**331.7**	**327.2**

Table 9: Estimated Treasury Investments at 31 March 2022

	31 March 2021 Actual £m	31 March 2022 Forecast £m
Treasury investments:		
The UK Government	0.0	0.0
Local authorities	0.0	0.0
Other government entities	0.0	0.0
Secured investments	0.0	0.0
Banks (unsecured)	0.0	0.0
Building societies (unsecured)	0.0	0.0
Registered providers (unsecured)	10.0	0.0
Money market funds	15.0	10.0
Strategic pooled funds	30.0	30.0
Real estate investment trusts	0.0	0.0
Other investments	0.0	0.0
Total Treasury investments	**55.0**	**40.0**

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4.3 <u>Borrowing</u>

The Council at 31 March 2022 will hold an estimated £327.2m of long-term borrowing. In addition, potential short-term cash shortages forecasted for March 2022, may require funding through short-term borrowing.

The borrowing sums have been used as part of the Council's strategy for funding previous years' capital programmes. Although local authorities have scope to borrow in advance of need, essentially borrowing on the basis of future capital spend, it is proposed that the City Council's current practice of not borrowing in advance of need continues.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

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 whilst maintaining long term certainty in interest rate exposure;

- 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.

Strategic Approach:

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

The Council has raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, while also investigating the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

The PWLB is the main, competitively priced, flexible source of loan finance for funding local authority capital investment. As such it can be a significant source of liquidity. With some limited exceptions, PWLB loans are not available to local authorities that plan to buy investment assets primarily for yield, such as property purchased for a financial return, where they are not clearly serving some other significant service objective.

In respect of borrowing more generally, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The Council may also borrow further short-term loans to cover cash flow shortages.

The main sources of borrowing are:

- HM Treasury’s PWLB lending facility
- bank or building society authorised to operate in the UK
- UK Local Authority and UK public sector body
- UK public and private sector pension funds (except West Midlands Pension Fund)
- Stock Issue (Bond Issue)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of raising capital finance may be undertaken by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Further detail on alternate funding sources is provided below:

- UK Local Authority and UK public sector body – Traditionally inter local authority borrowing has been used to manage shorter term cashflow demands, but there is now greater potential for longer term arrangements.
- UK Municipal Bonds Agency plc - This was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities.
- LOBOs - The Council holds £38m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £10m of these LOBOs have options during 2022/23, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

There may be potential to reschedule debt through redeeming existing borrowing early and replacing it with borrowing at lower interest rates. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Given the capital programme and the increase in the underlying need to borrow represented by the Capital Financing Requirement **(see Appendix 6a),** the Council may need to borrow in the coming year. Taking account of interest rates, the level of investment balances, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2022/23 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.4 <u>Minimum Revenue Provision (MRP)</u>

Local authorities are required to make prudent provision for the repayment of long term capital programme borrowing through a revenue charge (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. broadly the life of an asset purchased or built.
It is proposed that the extant charging policy continues:

- For capital expenditure incurred before 1st April 2008, the Council will set MRP as a fixed charge of 2% pa of the relevant element of the Capital Financing Requirement, adjusted for the Adjustment A. Under the existing policy approved by Council on 23rd February 2016, the impact of this change in methodology is to be calculated with effect from 2007/08. In line with the transitional arrangements set out in the Statutory Guidance on Minimum Revenue Provision any amounts calculated will be treated as overpayments of MRP and may therefore be incorporated into future calculations of prudent provision. In total, the amount to be treated as overpayment of MRP is £35.7m to 2015/16.
- 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, using either the annuity or equal instalments calculation method or a depreciation calculation starting in the year after the asset becomes operational;

- MRP for leases brought onto the balance sheet under accounting rules will match the annual principal repayment for the associated deferred liability;
- It is noted that former operating leases will be brought onto the balance sheet on 1 April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard. Relevant Prudential Indicators will be adjusted to adopt this standard and reported back for approval as required. The total charge to revenue will remain unaffected by the new standard.
- Voluntary revenue provision will not be made and capital receipts not set aside to repay debt, unless approved in line with the financial procedure rules. Amounts voluntarily set aside as capital receipts and revenue provision in previous years will be treated as overpayments of MRP in line with the Statutory Guidance on Minimum Revenue Provision. In total, the amounts to be treated as overpayments are : £7.8m (voluntary revenue provision to 2015/16) and £28.9m (voluntary capital receipts set aside to 2015/16).

The government has consulted on proposed changes to it's statutory MRP Guidance, and although it is not anticipated that the proposal would necessitate a change in the Council's MRP policy, should any changes be required in the light of the final guidance these will be reported back for approval at a later date as necessary.

2.4.5 <u>Investments</u>

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £45m and £90m, and similar levels are expected to be maintained in the forthcoming year.

The Cipfa Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

The detailed objectives for investment that underpin the Treasury Management Strategy are:

Investment, to:

- 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's aim when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategic Approach

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to keep diversifying into more secure and/or higher yielding asset classes during 2022/23. The main investments used by the Council for any surplus cash is currently short-term unsecured deposits with banks, building societies, local authorities, the government and registered providers, along with Pooled funds such as

Collective Investment Schemes and money market funds. This diversification will represent a continuation of the approach adopted in 2021/22.

The Council may invest its surplus funds with any of the counterparty types in table 10 below, subject to the limits shown.

Environmental, social and governance (ESG) issues are becoming increasingly significant. However, this is not yet fully developed and there is a diversity of market approaches to ESG classification and analysis meaning that a consistent approach is difficult. The Council will where possible align treasury management practices with its own relevant environmental and climate change policies. The Council will always strive to obtain the best arrangement in line with its investment objectives.

Table 10: Approved counterparties and limits

Sector	Time limit (maximum)	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	2 years	£20m	Unlimited
Secured investments*	20 years	£20m	£20m per group
Banks (unsecured)*	13 months	£10m	£20m per group
Building societies (unsecured)*	13 months	£10m	£20m per group
Registered providers (unsecured)*	5 years	£10m	£20m in total
Money market funds*	n/a	£20m	£100m in total
Strategic pooled funds	n/a	£20m per fund	£50m per manager
Real estate investment trusts	n/a	£20m per fund	£50m in total
Corporates and Other investments*	20 years	£10m	£20m in total

This table must be read in conjunction with the notes below:

*A minimum credit rating limit will apply to the Treasury investments in the sectors marked with an asterisk. Investments will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be suitably creditworthy.

Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. The credit rating criteria are those determined by the Fitch crediting rating agency. In addition, the Council also has regard to the two other agencies that undertake credit ratings; Standards and Poor's and Moody's, in determining the lowest acceptable credit quality.

The Council will usually invest in counterparty types and for duration as identified by their treasury advisors. However, where terms allow security of deposit and demonstrate a small bail in risk, the Council may invest with 'local' counterparties (such as Coventry Building Society) in accordance with the limits and amounts in the table above.

Credit risk remains central to local authority investment management. Whilst the risk of banking failures has reduced, it has not dissipated altogether. Unqualified support by government is now unlikely, in part as a result of regulatory changes. This means that in the event of a banking failure, it is almost certain that unsecured creditors and corporate investors would suffer some losses. The change in the nature of investment risk reflects a move away from "bail out" by government to "bail in" by corporate investors. Recent changes in legislation means "bail in" has an even greater effect on the Council as Local Authority unsecured investments are one of the first investment classes subject to "bail in. These trends increase the importance of the diversification of investments as a way of mitigating the potential impact of "bail in" risk.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Some detail on investment counterparties is outlined below:

- Government - Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years. This relates to investments with the Debt Management Office (DMO), Treasury bills and gilts.

- Secured investments - Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- Banks and building societies (unsecured) - Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

- Registered providers (unsecured) - Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

- Money market funds - Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

- Strategic pooled funds - Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

- Real estate investment trusts (REIT) - Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

- Other investments - This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

- Operational bank accounts - The Council may incur operational exposures, for example though current accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in.

Investment limits are placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 11: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries *	£20m per country

*The minimum sovereign rating for countries other than the UK, in whom counterparties are located is A- with any investments in countries with a rating below AA+ being classified as non-specified investments, subject to a total limit of £10m.

Liquidity Management

The cash flow forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Separately, the City Council holds long-term investments or provides loans for operational or policy reasons, these investments are covered by the Commercial Investment Strategy (Section 2.5 and Appendix 5).

2.4.6 Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

- Financial derivatives (Councils) **-** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

  The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

  Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria.

  In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

- Markets in Financial Instruments Directive - The Council has retained professional client status with its providers of financial services, including [advisers, banks, brokers and fund managers], allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Finance believes this to be the most appropriate status.

2.4.7 **Treasury Management Advisors**

The Council employs consultants, currently Arlingclose, to provide treasury management advice. A key element of this is the provision of advice on credit risk and the supply of information on credit ratings from the three rating agencies, referred to above. Regular review meetings with the advisors provide a vehicle through which quality is managed. In addition, within the City Council, senior managers within the Finance service meet on a periodic basis to review treasury issues, including the use of advisors.

2.4.8 **Treasury Management Staff Training**

The Council'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.

2.4.9 **The Prudential Code**

The current capital finance framework has historically rested 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 and shown in **Appendix 6a.**

However, in December 2021 CIPFA revised the Code, with changes focused on commercial investments and associated borrowing. These are set out in section 2.5 covering the Commercial Investment Strategy

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

2.5 Commercial Investment Strategy

2.5.1 Commercialisation across local government through investment in property, shares and loans has come under increasing national scrutiny, particularly where such investment is funded through borrowing. A concern is that authorities might overstretch themselves relative to their capacity to manage the risk. 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.

2.5.2 The proposed Commercial Investment Strategy is set out in Appendix 5 and the associated Commercial Investment Indicators in Appendix 6b. The Strategy is designed to ensure strong risk management arrangements and that the level of commercial investments is proportionate in the context of the Council's overall finances. It is framed within the context of the Prudential Codefor capital finance revised in December 2021, Statutory Government Investment Guidance and the borrowing requirements of the PWLB.

2.5.3 The revised Prudential Code, which is very much in line with the rules for PWLB borrowing, sets out a new framework in which authorities are to manage commercial investments. The Code classifies investments as being for one of three purposes: *treasury management, service delivery or commercial return*, held primarily for financial return.

2.5.4 In respect of investments for **commercial return**:

- The risks should be proportionate to the authority's financial capacity – i.e. that losses are manageable;
- Authorities must not borrow to invest primarily for financial return;
- However, authorities with commercial land and property can invest in maximising its value, including repair, renewal and updating of the properties;
- Financial returns from the investment should be related to the viability of the project or only incidentally to the primary purpose;
- Although authorities are not required to sell commercial investments prior to borrowing, they will need to review options for selling such investments before borrowing, and annually as part of the treasury or investment strategies.

2.5.5 The financial risks that the Council faces through its investment portfolio can be broadly categoriesd as capital value or income risks, with:

- Capital value risks arising from the possibility of a borrower not being able to repay a loan, resulting in the need to impair or write off the loan at a cost to the Council. In the case of shares or property assets, a fall in value would result in a lower level of capital receipt were the Council to sell those assets;

- Income risks arising from lower levels of dividends, rent or interest income than budgeted for.

2.5.6 The proposed Commercial Investment Strategy is set out in Appendix 5 and the associated Commercial Investment Indicators in Appendix 6b. The Strategy is designed to ensure strong risk management arrangements and that the level of commercial investments is proportionate in the context of the Council's overall finances. In summary, the key issues addressed in the strategy are:

- The need to explicitly consider the balance between the security, yield and liquidity, both at strategic and scheme business case level. The investment guidance focuses on security in terms of the value of the asset invested in, and the ability of the authority to get back any sums invested; yield as the financial return on the investment, either as capital value or income generated, and liquidity as the ability to access liquid or cash funds from the assets when required;
- The setting of indicators to demonstrate the proportionality of the investments to the Council. Investments in commercial assets are proportionate to the size of the Council, with income from such investments respresenting 3.4% (2.7% in 2021/22) of Net Service Expenditure (Indicator 7) and with an asset value of £465m representing 28% of the Council's Total assets (Indicator 1);
- Setting processes that ensure that the risk assessment of commercial investments is robust;
- Ensuring that there is clarity about the contribution that the investments make to the authority, both in terms of financial return, but also in service or policy terms;
- The continuation of the policy that the Council will not invest primarily for yield of financial return, in line with both the PWLB borrowing rules and the revised Prudential Code.

2.5.7 The strategy sets out the approach to ensuring that the requirements are met, through a combination or policies, processes and investment indicators. Specific indicators include exposure limits in 2022/23 for investment in service loans and shares, excluding fluctuations in value. It is proposed that the current limits of £68m and £55m respectively are set for 2022/23 (Appendices 5 & 6b). These figures represent increases over the current limits (loans £53m and shares £50m), which reflect the classification of one investment (UKBIC) as part loan and part shares, in line with accounting requirements. These limits provided combined headroom of c£7.6m future loan and share commitments. Revision of these limits would require the approval of Council.

2.5.8 In respect of commercial investment exposure, work with the Council's treasury advisors has highlighted that the Council may have a relatively high level of commercial investments by value compared to other authorities although not necessarily a comparatively high level of reliance on income from those investments. However, there are questions over the comparability of data regarding the classification of investments, which will be reviewed in 2022. In addition, many of the commercial investments are properties that have been held for many years and which are an integral part of the economic infrastructure of the city, reflecting past economic regeneration and development policies.

2.5.9 Work is currently being undertaken to look at the most relevant way of managing overall commercial investment risk. This could involve setting limits to the value of total commercial investments, although such an approach wouldn't adequately reflect the fact that may council investments, including property, are held over the long-term, are not routinely "traded" and provide significant service benefits. From the wider investment risk and resilience perspective, the level of reserves available to an authority is key and one option to be considered is for a separate risk management reserve to be established. This will be considered as part of the Council's outturn position.

2.5.10 In part due to the impact of Covid-19, there has been an increasing demand for councils to provide financial support to organisations encountering cashflow and other problems. The Council has responded by providing loan finance locally, both direct to organisations and also as part of the government's coronavirus business support arrangements. In addition, strategically important service developments such as the Materials Recycling Facility require share and loan financing by stakeholder authorities. In financially very uncertain times there is an increased risk of loss when making investments and giving support, and this has been seen in different parts of the country as developments have encountered financial problems. Within this wider context it is likely that greater sums will need to be provided for potential losses that may arise on loans provided by the Council. This position will continue to be monitored and will be reviewed in detail and provided for as necessary in closing the 2021/22 accounts.

3. Results of consultation undertaken

3.1 The proposals in this report have been subject to public consultation. The Council hosted a survey on its website asking for people's views of the budget proposals and provided the opportunity to make representation to the Trades Unions and Chamber of Commerce. The details arising from the consultation are set out in Appendix 2 and these have not resulted in any changes made between the Pre-Budget Report and this report.

4. Timetable for implementing this decision

4.1 Most of the individual changes identified within this report will take effect from 1st April 2022. The proposed profile of these changes are set out in Appendix 1.

5. Comments from the Chief Operating Officer and the Director of Law and Governance

5.1 Financial Implications
This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2022/23 revenue and capital budget supported by the Council Tax Report that will be considered alongside this one.

5.1.1 Financial implications - Medium Term Position
This report sets out proposals that will deliver a balanced budget for 2022/23. The new funding arrangements that were planned by Government to be put in place have not yet occurred so the Council is still planning within an uncertain environment. The significant financial gap projected currently for subsequent years demonstrates the need for the Council to continue to exercise robust financial disciplines and to take a medium term approach to Budget setting. It is reasonable to assume that a large proportion of the new one-off funding announced for 2022/23 will be available as ongoing resource for the Council in the future. This will help to close the funding gaps shown in this report although it will not possible to provide a robust forecast of this funding until the Government publishes its plans for local government finance reform. Despite this, the view of the Chief

Operating Officer is that the Council remains in a strong position to meet the financial challenges that it is likely to face. This view is based on expectations of the trajectory of future funding settlements, the Council's strong reserves position, its focus on income generating commercial activities and its plans to streamline and better align its activities with its policy priorities through its One Coventry Plan approach.

5.1.2 Financial Implications – Reserves

The Local Government Act 2003 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 2022/23 will not be known until finalisation of the 2021/22 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2020/21 stood at £123m. Other reserve balances set aside to fund capital schemes stood at £27m and balances owned by the Council's local authority maintained schools and outside the Council's control, stood at £27m at 31st March 2021. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2021. The level of balances is set out in the table below.

Table 12: 2020/21 Reserve Balances

	1st April 2020	(Increase)/ Decrease	31st March 2021
	£000	£000	£000
Council Revenue Reserves			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(3,017)	(9,651)	(12,668)
Private Finance Initiatives	(9,467)	(1,527)	(10,994)
Early Retirement and Voluntary Redundancy	(9,323)	0	(9,323)
Potential Loss of Business Rates Income	(7,735)	0	(7,735)
Covid-19 Government Funding	(7,558)	0	(7,558)
Innovation and Development Fund	(5,549)	0	(5,549)
Reset and Recovery	(5,467)	0	(5,467)
City of Culture Readiness	(1,842)	(3,122)	(4,964)
Air Quality	(641)	(3,876)	(4,517)
Commercial Developments	(4,419)	0	(4,419)
Management of Capital	(5,564)	1,536	(4,028)
City of Culture	(4,000)	1,500	(2,500)
Insurance Fund	(721)	(1,327)	(2,048)
Public Health	(1,356)	(398)	(1,754)
Other Directorate	(11,187)	(3,962)	(15,149)
Other Corporate	(1,797)	(11,803)	(13,600)
Total Council Revenue Reserves	**(89,920)**	**(32,630)**	**(122,550)**
Extra-Ordinary Item - Covid Business Rates Relief	**0**	**(48,302)**	**(48,302)**

Council Capital Reserves		0	
Useable Capital Receipts Reserve	(31,099)	6,363	(24,736)
Capital Grant Unapplied Account	(1,834)	6	(1,828)
Total Council Capital Reserves	**(32,933)**	**6,369**	**(26,564)**
School Reserves			
Schools (specific to individual schools)	(18,007)	(4,289)	(22,296)
Schools (related to expenditure retained centrally)	(3,298)	(1,509)	(4,807)
Total Schools Reserves	**(21,305)**	**(5,798)**	**(27,103)**
Total Reserves	**(144,158)**	**(80,361)**	**(224,519)**

The large majority of the balances above are held for a clear identifiable purpose and have existing planned expenditure commitments against them or are held to protect the Council manage unforeseen risks, potential or known insurance claims or Business Rate volatility. Schools reserves are set aside exclusively for the purpose of supporting schools expenditure and capital reserves are set aside to support capital expenditure. Local authority reserves must also be viewed in the context of the risks that are faced, set out below, in section 5.1.4. For these reasons it is not appropriate to apply reserves on a regular basis to support the revenue position. The proposed revenue budget does not include any reserve contributions to support the overall revenue position although some specific reserve balances will be applied within services to support time-limited projects or expenditure.

Given the consideration of risk within the Commercial Investment Strategy it is proposed that the level of reserves set aside to take account of the Council's risk profile will be considered as part of the Council's outturn position.

The most recently published CIPFA Resilience Index contained results indicating that the Council's overall level of reserves placed it in the middle of the pack compared to similar authorities although the Council's ratio of unallocated reserves to revenue expenditure placed it in the highest risk quartile. A different indicator showing the change in this balance demonstrates that the Council has increased these reserves in recent years, moving it away from what was a lower ranking previously.

Taking all this into account, it is the view of the Chief Operating Officer (Section 151 Officer) that overall levels are adequate to support the recommended budget for 2022/23. 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 some other similar authorities.
ii) The level of reserves is sufficient to support contributions to 2022/23 directorate-based budgets (including schools) and Corporate commitments both for capital and revenue purposes.
iii) The level of uncommitted General Fund Reserves 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 on-going expenditure. These balances are reported and scrutinised regularly.

5.1.3 Financial Implications – Assurance on the Robustness of the Estimates

Under the terms of the Local Government Act 2003, the Chief Financial Officer is required to give assurance on the robustness of the estimates included in the budget. In the view of the Chief Operating Officer (Section 151 Officer) 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 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 four 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 services working to strict budgets, prepare detailed 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 services have been involved in the make-up of the information included in the policy and financial planning process through the Strategic Leadership Team and One Coventry Leadership Team.
vi) As discussed above, 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 participate in the final budget setting decisions.

Despite these statements about robustness of estimates and reserves, the challenges facing the Council in the next few years will require regular monitoring and potentially corrective action.

5.1.4 Financial Implications - Budget Risks

In setting the budget and implementing the policies that sit behind it, the Council inevitably carries some risk. The major financial risks are set out below and will be managed through existing processes, including in year financial monitoring.

Overall Risks - In considering the Council's corporate objectives in the context of its financial position, resources have been allocated to meet corporate priorities, and savings have been identified. In these circumstances there are inherent risks that new resources are not used effectively to deliver corporate objectives and that on-going spending and income is not controlled to budgets. Operational management arrangements and quarterly monitoring reports in compliance with the Council's budgetary control rules will address this issue specifically.

5.1.4.1 **Children's Social Care Services –** The increased volume of cases, steep inflationary increases in the cost of individual placements, challenges in delivering a cost effective mix of placement types and the cost of additional staffing to manage the overall caseload has caused a volatile budgetary position withing Children's care services. This has been true throughout the period marked by Covid and has shown no sign of becoming less unpredictable in recent months. This budget is designed to reflect a reasonable forecast of the anticipated cost of ensuring safe and secure care for children within the city but it should be recognised that this will continue to be an area where the potential exists for further budgetary pressure through 2022/23. Within this environment, it remains important for work to continue to provide this care in as cost effective manner as possible and management will be committed to identify the appropriate mechanisms to do that.

5.1.4.2 **Health and Adult Social Care –** Adult Social Care services continue to operate within a very dynamic environment with cost pressures from inflationary changes in the external social care market, increasingly complex care packages and Covid related impacts on services. Alongside this there is a great deal of uncertainty around the costs and funding of Government reform, published in September 2021 under the title "Build Back Better: Our Plan for Health and Social Care". The headline measures set out in the document include a lifetime cap on the amount individuals will need to spend on their personal care and a more generous means-test for local authority financial support. These changes, to be implemented over the next 3 years will certainly represent greater costs to councils with social care responsibilities although the actual financial effect of the changes remains unclear at this stage. Additional funding is being provided through the Local Government Settlement but further clarity is needed on the implementation of reform to make any reasonable assessment of whether this will be sufficient. Alongside this, a funded medium term Adult Social Care financial plan remains in place recognising the current estimate of the increasing need for additional resources in the future. Nevertheless, this area of activity is naturally difficult to predict and the Council needs to continue to ensure an appropriate balance between the budget available and the level of activity in line with Council policy.

5.1.4.3 **COVID-19**

The 2021/22 financial year has witnessed continued massive health, societal and financial impacts on the country from the Covid pandemic. The local financial effects of these have been covered in detail in the Council's financial monitoring reports through the year. Current conditions (in mid-February) indicate improving conditions following the recent spike in case numbers, deaths and hospitalisations and a reduction in Covid restrictions on society. Even in a best case scenario, It is still expected that 2022/23 will see a impact on the Council's income streams, both from Business Rates and Council Tax and a range of fees and charges and legacy costs in a number of services, most significantly in the Children and Young People's Services. The Council has budgeted separately for some of these financial impacts in recognition that no further unringfenced Covid grant funding has been announced in the Government Settlement. In this respect, the Council has probably established financial provision to protect it from a mid-case scenario. The pattern of the pandemic over the past 12 months continues to provide clear reasons to be cautious about its future course although the Council is in a relatively secure financial position in terms of its reserve balances to manage a degree of financial impact beyond such a mid-case.

5.1.4.4 **Commerical Projects and External Companies –** The Council is involved in or investgating a range of major commercial acivities and interventions. These include major reputational and financial risk from the activites and commercial performance of each venture. These include, but are not restricted the following projects:

- Friargate – Joint work with external partners to regenerate a new business district involving the construction phases of a second office building and a new hotel in 2022/23.

- Moving into the the UK Battery Industrialisation Centre via a joint venture arrangement.
- Development of the City Centre South project, working with a major development partner to regenerate a large area of the city centre.
- Financial arrangements made on commercial terms to help support local organisations and the Council's direct investment in Coombe Abbey Park Limited.
- Development of a Material Recycling Facility within the city through the relatively recently formed Sherbourne Recycling Ltd joint venture company.

These projects are subject to a range of ownership and company structure arrangements, complex legal and financial transactions, a risk that commercial pay-back targets (for instance to finance prudential borrowing decisions) are not achieved and a wider risk that projects do not deliver their fundamental purpose (where this is different to specific financial targets). As above, in making decisions to pursue these projects the Council is clear that its involvement is consistent with its overarching objectives. In addition, the Council undertakes significant due diligence and ensures that self-funding business cases support any expenditure to keep the Council's financial costs (and risk) to a minimum. Nevertheless, to the extent that these projects are commercial ventures it must be recognised that their future financial performance will always be subject to a degree of risk. Decisions that have been taken or that are imminent have required a level of support due in part to respond to Covid conditions for some of the Council's key delivery partners, extending the level of involvement beyond what might be considered normal. Although each of these increases the risk profile for the Council, they are (both collectively and individually) relatively modest compared to the Council's overall activity levels and do not threaten the Council's financial resilience.

5.1.4.5 **Major Infrastructure Projects –** The Council is involved in a number of major infrastructure projects around the city that give it some exposure to a degree of financial and reputational risk. These include but are not limited to the A46 link road, plans to develop a Very Light Rail solution across the city and significant remodelling of major arterial routes in relation to the improvement of air quality. These projects all carry different balances of risk including project overrun, over-spending, expectation to meet funding gaps and reputational damage from any of these and other factors. The Council is clear that its involvement in these projects is vital to help regenerate the city and make Coventry a better place to live, work and do business in. Overwhelmingly, these arrangements are externally funded or have self-funding business cases that keep the Council's financial costs to a minimum. Any decisions to move away from this base position would need to be made on a case by case basis within the Council's existing resource constraints.

5.1.4.6 **Local Government Finance Changes** – further delays have now been incurred to previously indicated changes to local government finance including the overall local government funding settlement, a fair funding review (the share of local government resources allocated to the Council), Business Rates retention and announcement of future specific grant regimes, especially those for adult social care. The longer term changes represent a resource risk for the Council and the buoyancy of local Business Rates and Council Tax is fundamental for its financial sustainability. However, due to the nature of accounting for these local income sources, the risk applies to future years such that the 2022/23 budget estimates are secure.

5.2 **<u>Legal implications</u>**

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2022/23 budget by mid-March 2022. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer.

6. Other implications

6.1 How will this contribute to achievement of the Council Plan

The Council, in common with all local authorities, continues to be faced with challenging resource constraints over the coming years, which has a direct impact on its ability to deliver front-line services. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within its One Coventry Council Plan. In this way Budget proposals are aligned to existing policy priorities. The Council is in the process of rereshing the plan which should occur during 2022/23 and it will need to ensure that future financial plans are aligned to this. There are some initial signs that the Council is moving into a new phase of financial self-sufficiency and it will want to ensure that its key objectives and financial strategies are aligned as this situation develops.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The other key financial risks are identified in section 5.1.

6.3 What is the impact on the organisation?

There are no new savings proposals presently that will impact upon the number of staff employed by the Council. Future transformation programmes, the large Capital Programme and the adoption of commercially based projects mean that the Council will have to continue to adapt to meet the challenges that it faces in terms of the way it works. In addition, the experience of Covid conditions has led many Council staff to work from home, many on a 100% basis through 2021/22. When Covid conditions relax the Council will need to consider the extent to which the Covid experience provides a blue-print for a future model of working and an opportunity to identify more efficient ways of delivering services.

6.4 Equalities / EIA

The savings contained in this year's final Budget report are all broadly technical in nature. No equality impact has been identified in relation to these.

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

The Council is due to update its Climate Change Strategy to support the commitment it has made to respond to the climate change agenda. The Capital Programme includes schemes related to solar panels, green home grants and air quality which are all designed to have positive impacts on the environment.

6.6 Implications for partner organisations?

None

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