Coventry City Council

Public report
Cabinet

Cabinet	21st February 2023
Council	21st February 2023

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

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

Ward(s) affected:
All

Title:
Budget Report 2023/24

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2023/24, the Capital Programme for 2023/24 to 2027/28 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 13th December 2022 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 2023/24 incorporating the following details:

- Gross budgeted spend of £812m (£63m or 8% higher than 2022/23).
- Net budgeted spend of £261m (£23m or 10% higher than 2022/23) funded from Council Tax and Business Rates less a tariff payment of £20.5m due to Government.
- A Council Tax Requirement of £164.4m (£11.0m or 7% higher than 2022/23), reflecting a City Council Tax increase of 4.9% 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 £159.2m including expenditure funded by Prudential Borrowing of £19.6m.
- An updated Treasury Management Strategy, Capital Strategy and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2023/24 Local Government Finance Settlement. The Settlement includes some variations to the core position and specific grant allocations received in 2022/23 which provide some additional resources to help the Council manage the pressures it faces, in particular in relation to social care and the wider costs

of inflation. The position after 2023/24 remains uncertain despite the Government's medium-term spending plans being set out in the Autumn Statement published in November 2022. Reviews in relation to the local government financial allocation model and Business Rates retention are not now expected within the current parliament and will therefore not be in place for 2024/25 Budget Setting. The overall local government settlement for 2024/25 is expected to broadly mirror the 2024/25 position but has not been set out at an individual authority level. As a result it is impossible to provide a robust medium term financial forecast at this stage and the Council has instead made some planning estimates for future years. Initial assumptions indicate the likelihood that there will be a substantial gap for the period following 2023/24. The view of the Interim Chief Executive (Section 151 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 4.9% and this position has been maintained for the final proposals in this report. This incorporates an increase of 2.9%, which is within the Government's limit of 3% above which a referendum would need to be held plus a further 2% Adult Social Care (ASC) Precept line with Government expectations. The Precept was trailed in the Autumn Statement 2022 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 £1.60 a week for a typical Coventry household including the expected 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 a range of technical adjustments and newly identified cost savings or 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 and shown in tables 2 and 3. There are no new service savings required as a result of this budget.

The proposals do not provide the Council with a balanced budget beyond 2023/24. 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 towards the end of 2023 as any changes to local government finance resulting from the 2024/25 Settlement are made known. 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 2023 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 continues to be 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 amounts to £159.2m in 2023/24. The proposals reflect the Council's ambitions for the city and include: extensive highways infrastructure works including specific schemes relating to air quality, commencement of the City Region Sustainable Transport Settlement (CRSTS) programme that include initial packages of the Foleshill and London Road corridor; moving towards the next phase of the Very Light Rail project; the Council's share of capital loan financing to finalise the construction phase of the city's new Materials Recycling Facility; progressing the City Centre South redevelopment; and the completion of the second office building within the Friargate district of the city. Over the next 5 years the Capital Programme is estimated will total £544m as part of on-going 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.

Recommendations:

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 2023/24 revenue budget of **£812m** in **Table 1** and **Appendix 3,** established in line with a 4.9% City Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

(3) Note the Interim Chief Executive'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 £159.2m for 2023/24 and the forward commitments arising from this programme totalling £544m between 2023/24 to 2027/28 detailed in **Section 2.3** and **Appendix 4**.

(5) Approve the Council's Treasury Management Strategy and Minimum Revenue Provision Statement for 2023/24 in **Section 2.4** and the Prudential Indicators and limits described and detailed in **Appendix 6a**, the Commercial Investment Strategy for 2023/24 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 2023/24 to 2027/28
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 – 21st February 2023

Budget Report 2023/24

1. Context (or background)

1.1 This report seeks approval for the 2023/24 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 2023/24 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 13th December 2022. 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 2023/24 on 6th February 2023. The settlement provides a core funding level which includes additional and adjusted grant funding streams and improves the Council's financial position compared with that assumed at the start of the Budget process. The budget position shown assumes that any continuing and legacy impacts of Covid will be managed within the Council's financial envelope. It is now clear that previously planned Government changes to the local government finance system will not be implemented in 2023/24 or 2024/25 and until greater certainty is provided the Council will use the best estimates available. At this stage, these estimates assume continuation into future years of the majority of the core grant funding streams announced for 2023/24.

1.3 The Government's Autumn Statement 2022 indicated at a headline level that local government funding would be broadly flat after 2023/24. This provides a degree of assurance that the period of year on year local government funding reductions has come to an end. However, the impact of future social care and demographic changes and the continuing impact of inflation mean that local government is likely to suffer real-terms reductions in funding going forward. In addition, the scope for variations in the future allocation methodology and the distribution of specific grants adds further jeopardy for individual councils, including Coventry. 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 taking a more co-ordinated approach to how some services are delivered across the Council and the city alongside partners and continuing to pursue commercial options where these arise and are in line with Government regulation and sector guidance.

1.4 At the start of the current Budget process the Council faced a budget deficit of £17m for 2023/24. This position has been made worse by forecast financial pressures for the year ahead, including those caused by inflation, social care and other key services including housing and refuse collection. Following the Autumn Statement announcement in November the Council changed its forecasts of Government funding levels and the assumed maximum permissible rises for Council Tax and the Adult Social Care precept which were increased compared with previous forecasts. These and the incorporation of new technical savings proposals improved the financial position such that the Pre-Budget Report showed a balanced year one position pending the Government's Provisional Local Government Settlement, released in December. The subsequent Local Government Finance Settlement refined the detailed proposals on specific grant resources which together with a small number of other technical changes has allowed a balanced Budget position to be achieved in 2023/24 and a reduced financial gap in future years compared with the Pre-Budget Report.

1.5 For 2023/24 councils nationally have the flexibility to increase Council Tax by up to 3% without holding a local referendum on the matter with further ASC precept flexibility of 2%. The Pre-Budget Report was approved on the basis of an overall Council Tax rise of 4.9% - within the parameters of these flexibilities - and the budget being proposed in this report maintains this position.

1.6 The Council and city have witnessed large and sustained programmes of infrastructure and other capital investment works over recent years. 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 the City Region Sustainable Transport plan and developing local self-financing projects within the city. The scale and breadth of this programme continue to be 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£544m 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

2022/23 £000s		2023/24 £000s	Change from 22/23 £000s	Change from 22/23 %
(153,394)	**A: Council Tax Requirement**	**(164,440)**	**(11,046)**	**7% Increase**
(103,328)	**B: Business Rates Income**	**(116,573)**	**(13,245)**	**13% Increase**
19,300	**C: Tariff**	**20,511**	**(1,211)**	**6% Increase**

(402,668)	**D: Specific Grants**	**(432,543)**	**(29,875)**	**7% Increase**
(108,743)	**E: All Other Income**	**(118,972)**	**(10,229)**	**9% Increase**
(237,422)	**Funding of Net Budget (A + B + C)**	**(260,502)**	**(23,080)**	**10% Increase**
(748,833)	**Funding of Gross Budget (A + B + C + D + E)**	**(812,017)**	**(63,184)**	**8% Increase**

Line A above reflects the city Council Tax increase of 4.9% 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 makes planning assumptions about the one-off grants available in 2023/24 that will continue into 2024/25 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 has 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 £20.5m for 2023/24 which is marginally higher 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 increasing between 2022/23 and 2023/24 from £403m to £433m. The largest grant allocations are for Dedicated Schools Grant (£188m), Housing Benefit Subsidy (£68m), various social care funding streams (£55m), grants relating to Business Rates (£26m), Public Health (£23m), Pupil Premium (£10m), Private Finance Initiatives (£9m) 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 4.9% which includes an Adult Social Care Precept of 2%.

2.1.2 The report seeks approval for a 2023/24 Capital Programme of £159.2m compared with the initial 2022/23 programme of £145.1m. 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 13th December 2022 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 2023/24 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

	2023/24 **£m**	**2024/25** **£m**	**2025/26** **£m**
Pre-Budget Report Position	**0.0**	**30.3**	**42.3**
Change to Resources	3.8	(7.6)	(10.3)
Change to Service & Technical Pressures	1.5	1.0	2.0
Change to Service & Technical Savings	(5.3)	(3.7)	(3.3)
Sub-Total: Changes From Pre-	**0.0**	**(10.3)**	**(11.6)**

Budget Position			
Final Budget Position	**0.0**	**20.0**	**30.7**

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

	Appx 1 Line Ref	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Pre-Budget Report Position		**0.0**	**30.3**	**42.3**
Local Government Settlement	1	(2.1)	(2.1)	(2.1)
Local Government Settlement Grants Rolled In	1a	0.5	0.5	0.5
Local Government Settlement - Lower Tier Services Grant	3	0.6	0.0	0.0
Local Government Settlement - 2022/23 Services Grant	4	2.3	(3.3)	(3.3)
2023/24 Adults' and Children's Social Care Grant	6	0.0	(5.2)	(5.2)
New Homes Bonus	7	(0.7)	0.0	0.0
Business Rates Indexation	8	2.6	(1.9)	(2.4)
Council Tax & Business Rates Surplus Carry Forward	9	(2.5)	4.0	2.0
Council Tax/Business Rates Collection Fund Including Proposed Council Tax Rise of 4.9%	10	3.1	0.4	0.2
Inflation	11	1.3	1.0	2.0
Fly Tipping Technology (ongoing cost of £38k from 2024/25)	27a	0.1	0.0	0.0
Superannuation Triennial Review	28a	(1.7)	(1.7)	(1.7)
Asset Management Revenue Account	36	(1.9)	0.0	0.0
West Midlands Combined Authority Levy	40	(1.6)	(2.0)	(1.5)
Final Budget Position		**0.0**	**20.0**	**30.7**

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 £159.2m which contains a number of strategically significant schemes. The 2023/24 Programme shown compares with the current projected 2022/23 programme of £159.5m. A full 5-year position is detailed in **Appendix 4** with the main planned expenditure as follows:

- Very Light Rail Regional Programme – total CRSTS allocation of £71.7 million, of which £54.5 million is specifically for the delivery of the Very Light Rail City Centre Demonstrator route within Coventry.
- £23.8m of investment in the city's highways and transportation infrastructure. This includes the commencement of delivering the CRSTS programme. Specifically early works for Foleshill Transport Package improvements focussed on the Foleshill Road corridor along with transport improvements focussed on the London Road corridor supporting the Gigafactory and other developments planned for the Coventry Airport area.
- £6.7m left to deliver by summer 2023-24 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 and Ring-Road Junction 7. 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.
- £1.8m for the public realm 6 programme of works that will focus on improving security, lighting and refreshing areas surrounding Broadgate, The Precinct, Priory Place and the Cathedral. The schemes will deliver high quality improvements to strategic areas of the city and also enhance the setting of the key events venues and visitor attractions.
- A £27.9m programme in 2023/24 within the Education and Skills Portfolio, investing in secondary schools provision under the Education One Strategic Plan including the start of the Woodlands Schools development.
- Investment in wholly owned council company, Tom White Waste in the form of a commercial loan for the delivery of a recycling infrastructure aiding the growth and ongoing development of the company.
- £0.5m of additional resource for the Coventry Station Masterplan Scheme as paragraph set out below.

2.3.3 The 2023/24 Programme requires £19.6m of funding from Prudential Borrowing, including schemes previously approved for the replacement vehicle programme, the completion of first phase of the Collection Centre design costs, secondary schools extension and the approved funding for acquisition and refurbishment of properties to support the homeless. Over the course of the future 5 year programme set out, the Council is set to incur £103m 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 relation to the Council's existing level of borrowing this adds to the Council's external indebtedness.

2.3.4 Following successful completion of the physical works on the Coventry Station Masterplan in March 2022, discussions to conclude the complex commercial and technical matters have been progressing. However, there are several technical matters that still require close-out. A prolonged close-out will result in additional cost pressures and so is being treated as a priority with high level discussions on-going between the relevant parties. The latest position is a projected overspend of up to circa £500k against the £80m project budget, which has been earmarked to be resourced from capital receipts. Approval is sought as part of the overall Capital Programme detailed within this report.

2.3.5 In addition to the opportunities to receive additional external funding, the Interim Chief Executive (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 2023/24 Capital Programme is £124m of Capital grants as follows.

Table 4: Capital Grant Funding

Grant	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £m
Disabled Facilities Grant	7.0	5.0	5.0	5.0	4.2	**26.2**
Department for Transport	5.9	0.0	0.0	0.0	0.0	**5.9**
Education Funding Agency	16.3	6.7	28.3	2.5	2.4	**56.2**
West Midlands Combined Authority	89.8	38.2	33.7	19.8	0	**181.5**
Ministry of Housing, Communities & Local Government	2.0	6.3	0.0	0.0	0.0	**8.3**
All Other Grants & Contributions	3.0	1.0	0.0	0.0	0.0	**4.0**
TOTAL PROGRAMME*	**124.0**	**56.8**	**67.0**	**27.3**	**6.6**	**281.7**

*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. In overall terms, 2023/24 will continue at a relatively lower level of programme spend than witnessed in some recent years but nevertheless involves a number of complex and overlapping projects. 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 funding 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 2023/24 as a result of the 2022/23 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 5: 2023/24 – 2027/28 Capital Programme (Expenditure & Funding)

Portfolio Expenditure	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Policy and Leadership	1,108	0	0	0	0	**1,108**
Children & Young People	1,450	100	100	100	200	**1,950**
Education & Skills	27,958	17,618	33,487	2,487	2,414	**83,964**
Jobs & Regeneration	76,646	27,086	69,053	16,697	112,447	**301,929**
City Services	42,355	46,999	11,398	11,972	3,713	**116,437**
Adult Services	6,964	5,000	5,000	5,000	4,182	**26,146**
Public Health & Sport	125	150	150	237	1,729	**2,391**
Housing & Communities	2,580	7,478	0	0	0	**10,058**
TOTAL PROGRAMME	**159,186**	**104,431**	**119,188**	**36,493**	**124,685**	**543,983**

Funding	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Management of Capital Reserve	1,273	100	100	100	200	**1,773**
Capital Unringfenced Receipts	4,943	4,886	0	0	0	**9,829**
Capital Ringfenced Receipts	7,003	5,654	0	0	0	**12,657**
Prudential Borrowing	19,593	31,565	47,987	2,133	1,713	**102,991**
Grant	123,969	56,787	66,982	27,325	6,596	**281,659**
Capital Expenditure from Revenue	84	2,909	2,969	5,698	113,447	**125,107**
Section 106	2,321	2,530	1,150	1,237	2,729	**9,967**
TOTAL PROGRAMME	**159,186**	**104,431**	**119,188**	**36,493**	**124,685**	**543,983**

2.3.8 Generation of Capital Receipts

The Council reviews the opportunity to generate capital receipts in order to support capital investment and reduce the reliance on Prudential Borrowing to fund spend. Whilst the Council considers all assets in looking to generate receipts, it will seek to do so in particular where these are surplus to operational requirements or yield little or no 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. Based on the review of the potential to generate receipts, 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	2025/26 £000s
Forecast (Receipts Brought Forward)/Receipts Shortfall	(31,188)	(32,276)	(21,324)	(6,998)
Forecast New Receipts	(12,085)	(3,062)	(13,214)	(2,389)
Total Receipts	**(43,273)**	**(35,338)**	**(34,538)**	**(9,386)**
Commitments	10,997	14,014	27,540	5,000
Receipts Shortfall/(Receipts Carried Forward)	**(32,276)**	**(21,324)**	**(6,998)**	**(4,386)**

2.3.9 **Guarantees, Loan Commitments and Other Liabilities**

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 £615m (31st March 2022). The pension deficit crystalises over time as payments to scheme 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.

The Council has made loans to a number of external partners which are summarised in the Commercial Investment Strategy attached as an appendix. The total value of loans provided or committed is £88m. 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 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.

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 : 2023/24 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Opening CFR - 1st April	**513.3**	**515.5**	**514.8**	**523.7**	**546.2**
Capital Spend met form borrowing	21.4	19.6	31.6	48.0	2.1
Minimum Revenue Provision	-17.4	-18.3	-20.5	-23.1	-23.2
Other	-1.8	-2.0	-2.2	-2.4	0.0
Closing CFR - 31st March	**515.5**	**514.8**	**523.7**	**546.2**	**525.1**

Over the 5 years from 1st April 2022, it is forecast that the CFR will increase 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 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 £37.9m in 2022/23 to £44.7m in 2025/26, 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 2023/24

2.4.1 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 are 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 2021 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 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 2022/23 to 2025/26 for the treasury and capital programme management are 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

2.4.2 **<u>Economic Environment</u>**

Economic Background
The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, and an uncertain economic outlook, are major influences on the Authority's treasury management strategy for 2023/24. The Bank of England (BoE) increased Bank Rate by 0.5% in February 2023 to 4%. This followed a 0.5% rise in December 2022 and a 0.75% rise in November which was the largest single rate hike since 1989.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

Credit Outlook
Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic. CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast
The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target. While interest rate expectations reduced during October and November 2022, Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.4.3 **Coventry City Council Position**

On 31 March 2023, the Council will hold an estimated £316m of long-term borrowing and £40m of treasury investments. This is set out in further detail in the tables below (figures included at the nominal value of the debt):

Table 1: Estimated Long-Term Borrowing at 31 March 2023

	31 March 2022 Actual £m	**31 March 2023 Forecast £m**
External borrowing:		
Public Works Loan Board	190.4	184.9
Money Market Loans (Incl. LOBO's)	38.0	38.0
Stock Issue	12.0	12.0
West Midlands Combined Authority	18.0	18.0
Total external borrowing	**258.4**	**252.9**
Other long-term liabilities:		
Private Finance Initiative	59.9	56.9
Leases		
Transferred Debt (other authorities)	8.5	6.5
Total other long-term liabilities	**68.4**	**63.4**
Total gross external debt	**326.8**	**316.3**

Table 2: Estimated Treasury Investments at 31 March 2023

	31 March 2022 Actual £m	31 March 2023 Forecast £m
Treasury investments:		
The UK Government	19.0	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)	0.0	0.0
Money market funds	18.3	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	**67.3**	**40.0**

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing – the use of balances held from sources such as reserves and capital receipts to reduce the amount of external borrowing required by the Council.

2.4.4 **Borrowing**

At 31 March 2023 the Council will hold an estimated £316.3m of long-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 interest rates forecasting to peak in early 2023, 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 fall modestly.

The Council has raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pension funds 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 bodies
- 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 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 2023/24, and although the Council understands that lenders are unlikely to exercise their options in the current 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 and reflected in the Liability Benchmark indicator **(see 2.4.11 and 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 2023/24 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.5 Minimum Revenue Provision (MRP)

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;

- Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains 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).

2.4.6 **Investments**

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 £88m and £129m, although lower levels are expected 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 current volatility in interest rates and the financial markets, treasury investments will therefore include both short-term low risk instruments to manage day-to-day flows and longer term instruments where limited additional risk is accepted in return for higher investment income to support local services. The main investments used by the Council for any surplus cash is 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 2022/23.

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing. The Council has not adopted a formal ESG policy and does not currently apply ESG scoring to its investments. 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.

The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: 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	25 years	£20m	Unlimited
Secured investments *	25 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.

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.

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.

- **Risk assessment and credit ratings –** 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. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

    - No new investments will be made
    - Any existing investments that can be recalled or sold at no cost will be
    - Full consideration will be given to the recall or sale of all other investments with the affected counterparty

- **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

  When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

- **Investment limits:** The Authority has sufficient revenue reserves available to cover investment losses but to minimise risk in the case of a single default, the maximum that will be invested in any one organisation (other than the UK Government) will be £20 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

  Limits are also 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 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£20m 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 Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

2.4.7 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 (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). 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 Section 151 Officer believes this to be the most appropriate status.

2.4.8 Other option considered

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

2.4.9 **<u>Treasury Management Advisors</u>**

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.

2.4.10 **<u>Treasury Management Staff Training</u>**

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.

2.4.11 **<u>The Prudential Code</u>**

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.** These indicators reflect changes required under the Prudential and Treasury Management Codes, which were revised in December 2021:

- Indicator 1, showing the projected capital financing costs of the capital programme has been restated to show gross rather than net costs, through the exclusion of investment and interest income from the indicator;
- A liability benchmark indicator has been included to show a longer term projection of the Council's underlying need to borrow against the actual level of borrowing.

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 Code for capital finance revised in December 2021, Statutory Government Investment Guidance and the borrowing requirements of the PWLB.

2.5.3 The 2021 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 Strategy (Appendix 5) 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 9.0% (9.9% in 2022/23) of Net Revenue Stream (Indicator 7) and with an asset value of £519.2m representing 29% 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 2023/24 for investment in service loans and shares, excluding fluctuations in value. It is proposed that the current limits of £91m and £55m respectively are set for 2023/24 (Appendices 5 & 6b). These figures represent the same limits as set for 2022/23. These limits provided combined headroom of c£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 undertaken 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 2023. 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 The challenging economic envoironment of recent times, has seen 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 have required 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 2022/23 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 137 respondents completed a survey. Two online sessions were held with employees and one for residents to hear about the plans and provide feedback. Further opportunity to comment was offered to the Trades Unions and the Chamber of Commerce. The details arising from the consultation are set out in Appendix 2.

4. Timetable for implementing this decision

4.1 Most of the individual changes identified within this report will take effect from 1st April 2023. The proposed profile of these changes is set out in Appendix 1.

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

5.1 <u>**Financial Implications**</u>

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2023/24 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 2023/24. 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 2023/24 will be available as ongoing resource for the Council in the future and some of this has now been included in future forecasts. However, it will not possible to provide a robust forecast of this funding until the Government provides further detail as part of future announcements. Despite this, the view of the Interim Chief Executive (Section 151 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 2023/24 will not be known until finalisation of the 2022/23 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2021/22 stood at £140m. Other reserve balances set aside to fund capital schemes stood at £37m and balances owned by the Council's local authority maintained schools and outside the Council's control, stood at £31m at 31st March 2022. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2022. The level of balances is set out in the table below.

Table 12: 2021/22 Reserve Balances

	1st April 2021	(Increase)/ Decrease	31st March 2022
	£000	£000	£000
Council Revenue Reserves			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(13,331)	(14,955)	(28,287)
Covid 19 Government Funding	(7,558)	(3,423)	(10,981)
Private Finance Initiatives	(10,994)	1,368	(9,626)
Early Retirement and Voluntary Redundancy	(9,323)	0	(9,323)
Corporate Priorities (2020/21 Outturn Underspend)	(9,225)	527	(8,698)
Potential Loss of Business Rates Income	(7,735)	0	(7,735)
Innovation and Development Fund	(5,549)	50	(5,499)
Reset and Recovery	(5,467)	0	(5,467)
Air Quality Early Measures	(4,517)	284	(4,232)
City of Culture Commonwealth Games Readiness	(4,964)	1,060	(3,904)
Management of Capital	(4,028)	618	(3,410)
Commercial Developments	(3,750)	402	(3,348)

Public Health	(1,013)	(1,456)	(2,469)
Friargate Lifecycle	(1,378)	(217)	(1,594)
Insurance Fund	(2,049)	552	(1,497)
Corporate Property Management	(1,394)	25	(1,369)
Children's Social Care Family Valued Programme	(639)	(590)	(1,229)
Adult Education Income	(1,005)	(82)	(1,086)
Other Directorate	(10,790)	(3,827)	(14,617)
Other Corporate	(7,524)	1,681	(5,843)
Total Council Revenue Reserves	**(122,511)**	**(17,982)**	**(140,493)**
Extra-Ordinary Item - Covid Business Rates Relief	**(48,302)**	**29,667**	**(18,635)**
Council Capital Reserves		0	
Useable Capital Receipts Reserve	(24,736)	(6,451)	(31,187)
Capital Grant Unapplied Account	(1,828)	(3,641)	(5,469)
Total Council Capital Reserves	**(26,564)**	**(10,092)**	**(36,656)**
School Reserves			
Schools (specific to individual schools)	(22,315)	(2,750)	(25,065)
Schools (related to expenditure retained centrally)	(4,806)	(1,121)	(5,927)
Total Schools Reserves	**(27,121)**	**(3,870)**	**(30,991)**
Total Reserves	**(224,498)**	**(2,278)**	**(226,775)**

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 Interim Chief Executive (Section 151 Officer) that overall levels are adequate to support the recommended budget for 2023/24. 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 2023/24 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 Interim Chief Executive (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 three years incorporating the concept of strictly controlled directorate budgets, known policy changes and best estimates of the impact of inflationary pressures and expectations of resources.
iii) The authority operates an integrated medium term policy and financial planning process that incorporates a comprehensive and detailed assessment of the new policy and technical changes that will affect the proposed budget and the medium term budgetary position of the authority.
iv) Individual 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 continues to cause a volatile budgetary position within Children's care services. The current inflationary environment will continue to influence some of the these cost pressures over the coming year. 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 2023/24. Within this environment, it remains important for work to continue to provide this care in as cost effective manner as possible and management is committed to identifying 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 significant inflationary pressures driven by a substantial increase to the National Living Wage in 2023/24 alongside high levels of inflation within other costs across Social Care provision as well as increasingly complex care packages. Whilst capacity and market sustainability pressures are a long standing issue in Adult Social Care, these have been exacerbated by additional costs during and following the COVID pandemic and significant difficulties in recruitment and retention, alongside the widely reported pressures across the health system (a key driver of activity into Adult Social Care). With the large increases in inflation seen during the 2022/23 year which are expected to continue for the immediate future, this adds further pressure to a market already heavily under pressure. 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 **Commerical Projects and External Companies –** The Council is involved in or investigating 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.
- Development of the City Centre South project, working with a major development partner to regenerate a large area of the city centre.
- Work to re-purpose the former IKEA building via the Cultural Gateway project.
- Financial arrangements made on commercial terms to help support local organisations and the Council's arms length companies.

- Development of the Material Recycling Facility within the city through the relatively recently formed Sherbourne Recycling Ltd joint venture company.
- Ownership of and support for the UK Battery Industrialisation Combany (UKBIC) Ltd), a project to fast-track the development of cost-effective, high-performance, and recyclable batteries which is funded overwhelmingly by grant provided by Innovate UK.

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 legacy Covid conditions or those affected by inflation, the cost of living crisis and the difficult trading conditions affecting many sectors of the economy and some of the Council's key delivery partners. This has extended 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.

5.1.4.4 **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 commencing delivering of the CRSTS programme that includes initial packages of work on the Foleshill and London Road corridors, 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. Other schemes of note include the completion of both Binley cycleway and the A45 Eastern Green overbridge as part of the Housing Infrastructure Fund works. 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.

5.1.4.5 **Local Government Finance Changes** – the local government sector now knows that previously indicated wider changes to local government finance are now unlikely to be implemented prior to 2025/26. This pushes back some of the resource risk that could potentially exist for the Council as a result of any structural reform of the system. However, the 2024/25 finance settlement could still witness some changes to the distribution of core funding and specific grant allocations across the sector which remains a medium term risk. However, due to the nature of accounting for these local income sources, the risk applies to future years such that the 2023/24 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 2023. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer.

6. Other implications

6.1 How will this contribute to 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 will be finalised during 2023/24 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 5.1.4.

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. Implementation of the One Coventry Plan, continued delivery of complex Capital Programme schemes 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 Council will need to keep under review the extent to which the transition for many Council staff to working from home on a regular basis provides a opportunities 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 including air quality and transport solutions that are all designed to have positive impacts on the environment.

6.6 Implications for partner organisations?

None

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