Coventry City Council

Public report
Cabinet

Cabinet	20th February 2024
Council	20th February 2024

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

Director Approving Submission of the report:
Director of Finance and Resources (Section 151 Officer)

Ward(s) affected:
All

Title:
Budget Report 2024/25

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2024/25, the Medium-Term Financial Strategy 2024 to 2027, the Capital Programme for 2024/25 to 2028/29 and the Council's Capital, Treasury Management and Commercial Investment Strategies which is a function reserved to Council.

Executive Summary:

This report follows on from the Pre-Budget Report approved by Cabinet on 12th December 2023 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 2024/25 incorporating the following details:

- Gross budgeted spend of £867.8m (£55.8m or 7% higher than 2023/24).
- Net budgeted spend of £277.5m (£17.0m or 7% higher than 2023/24) funded from Council Tax and Business Rates less a tariff payment of £22.2m due to the Government.
- A Council Tax Requirement of £175.9m (£11.5m or 7% higher than 2023/24), 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 proposals and technical savings proposals.
- A Capital Strategy including a Capital Programme of £157.5m including expenditure funded by Prudential Borrowing of £41m.
- An updated Treasury Management Strategy, Capital Strategy, and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2024/25 Local Government Finance Settlement published on 5th February 2024. Whilst the Government have provided an additional £3.2m of social care grant for 2024/25, the Settlement represents an ongoing net reduction in resources compared to the Pre-Budget report of c£2.1m per annum. The position after 2024/25 remains uncertain as the Government's spending plans are effectively the second year of a 2-year settlement, and the final year of the 5-year Comprehensive Spending Review. This therefore provides no certainty or stability for local government finances beyond 2024/25. Reviews in relation to the local government financial allocation model and Business Rates retention will not now happen in this parliament and will therefore need to be a focus of attention for the new government, following the general election expected later in 2024. 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 a strong likelihood that there will be a substantial gap for the periods following 2024/25. The view of the Director of Finance and Resources (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 in line with Government expectations. 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 Council has closed the significant financial gap for 2024/25 which it had at the start of the Budget process. Measures to achieving this included the identification of additional Council Tax resources, a range of technical adjustments and newly identified cost savings or income streams. All these proposals are set out in detail in Appendix 2. Where these are different to the proposals that were included in the Pre-Budget Report, this has been indicated within Appendix 2 and shown in tables 2 and 3 within section 2.2 of this report. There are no new service savings required (over and above those set out in the pre-budget report) as a result of this budget report.

The proposals do not provide the Council with a balanced budget beyond 2024/25. 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 2024 as any changes to local government finance resulting from the 2025/26 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. Through 2024, the Council will continue to 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 in the next parliament, the Council remains committed to maintaining, and where possible 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 consider investment in activities that strengthen its existing financial interests and those of the city, 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 policy and the wider pressures on local government services.

The Council's Medium Term Financial Strategy (MTFS) included as Appendix 1 to this report, sets out the financial planning foundations that support the setting of the Council's revenue and capital budgets, including the policy assumptions and financial management framework that underpin the strategy. The purpose of the MTFS is to describe the environment within which the Council operates and bring together resource and cost projections to explain how the Council plans to address its funding gap, whilst retaining focus on its strategic priorities.

The recommended Capital Programme proposals are a key part of the Council's approach and amounts to £157.5m in 2024/25. The proposals reflect the Council's ambitions for the city and include: extensive highways infrastructure works including specific schemes relating to continued delivery of the City Region Sustainable Transport Settlement (CRSTS) programme that include transport packages for the Foleshill and London Road corridor; moving towards Stage Gate 2 of the Very Light Rail project; the commencement of City Centre Cultural Gateway; progressing the City Centre South redevelopment; and the commencement of the Woodlands School project. Over the next 5 years the Capital Programme is estimated at a total of £405m as part of on-going investment delivered by and through the City Council.

This report details the annual Treasury Management Strategy, incorporating the Minimum Revenue Provision policy and the Commercial Investment Strategy. 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.

Appendix 9 contains details of proposed changes to the Council Tax Support Scheme (CTSS). These have been modified from those included in the Pre-Budget Report following public consultation. This report requests approval for these changes to be implemented from 1st April 2024. The budgetary challenges faced by the Council for 2024/25 require the Council to review all areas of discretionary expenditure including the option to revise the amount of support provided through the CTSS for working age households.

Recommendations:

That Cabinet recommend to Council the approval of recommendations (1) to (11) below.

Council is recommended to:

(1) Approve the Medium-Term Financial Strategy in **Appendix 1** to this report, as the basis of its medium-term financial planning process.

(2) Approve the Budget proposals in **Appendix 2**, after due consideration of the consultation responses set out in **Appendix 3** and the Equality Impact Assessment set out in **Appendix 11 to 28** in relation to proposals to revise the Council Tax Support scheme.

(3) Approve the total 2024/25 revenue budget of **£870m** in **Table 1** and **Appendix 5,** 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.

(4) Note the Director of Finance and Resources (Section 151 Officer) comments confirming the adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(5) Approve the Capital Strategy incorporating the Capital Programme of £157.5m for 2024/25 and the forward commitments arising from this programme totalling £405m between 2024/25 to 2028/29 detailed in **Section 2.3** and **Appendix 6**.

(6) Authorise in respect of food waste, the introduction of a separate weekly food waste collection to be implemented with effect from 1 April 2025 delivering the savings in **Appendix 2** and detailed in **Section 2.3.4**, including:
   - the acceptance of the capital grant funding of £1.87m from the Department for Environment Food and Rural Affairs specifically for the delivery of a separate food waste collection, and
   - the addition of £1.87m grant funding to the capital programme in 24/25 to facilitate the necessary capital investment required to bring this recommendation into effect.

(7) Approve the addition to the capital programme of a new capital scheme for Temporary Accommodation acquisition at a total cost of £1.5m funded from prudential borrowing to support the delivery of the saving line *Increasing alternative Temporary Accommodation provisions* in **Appendix 2** - Budget Proposals and Financial Position and detailed in **Section 2.3.5**.

(8) Approve the expansion of the existing Residential Children’s Home Strategy scheme at a total cost of £1.4m funded from prudential borrowing to support the delivery of the saving line Expansion of Residential Strategy in **Appendix 2** - Budget Proposals and Financial Position and detailed in **Section 2.3.6**.

(9) Approve the Council's Treasury Management Strategy and Minimum Revenue Provision Statement for 2024/25 in **Section 2.4** and the Prudential Indicators and limits described and detailed in **Appendix 8**, the Commercial Investment Strategy for 2024/25 in **Section 2.5** and **Appendix 7** and the Commercial Investment Indicators detailed in **Appendix 8**.

(10) Consider and note the proposed changes to the Council Tax Support Scheme set out in Appendix 9 to the report, as a result of the consultation (Appendix 10) and the Equality Impact Assessment (Appendix 16).

(11) Approve the implementation of the revised Council Tax Support scheme as laid out in Appendix 9a of this report with effect from 1st April 2024.

List of Appendices included:

Appendix 1 - Medium Term Financial Strategy
Appendix 2 - Budget Proposals and Financial Position
Appendix 3 - Budget Consultation Responses
Appendix 4 - Summary of petitions received, and issues raised.
Appendix 5 - Summary Revenue Budget
Appendix 6 - Capital Programme 2024/25 to 2028/29
Appendix 7 - Commercial Investment Strategy
Appendix 8 - Prudential and Investment Indicators
Appendix 9 - Changes to the Council Tax Support Scheme
Appendix 9a - Coventry Council Tax Reduction Banded Scheme 2024/25
Appendix 10 - Council Tax Support Scheme Consultation Responses
Appendix 11 - Equality impact assessments (EIA) matrix
Appendix 12 - EIA – One Coventry: Coventry Connects Programme
Appendix 13 - EIA – One Coventry: Integrated Placed Based Services
Appendix 14 - EIA – One Coventry: Common Roles Review
Appendix 15 - EIA – One Coventry: Advice Services
Appendix 16 - EIA – Council Tax Support Scheme 2024/25
Appendix 17 - EIA – Charge for Green Waste
Appendix 18 - EIA – Increasing Alternative Temporary Accommodation Provisions
Appendix 19 - EIA – Switch off Street Lighting
Appendix 20 - EIA – Introduce Separate Food Waste Collection
Appendix 21 - EIA – City Centre Car Parking Charges
Appendix 22 - EIA – Resident Car Parking Permit Charges
Appendix 23 - EIA – Traveller Incursions
Appendix 24 - EIA – Education Transport Review
Appendix 25 - EIA – Funding to Cultural Organisations
Appendix 26 - EIA – Godiva Festival
Appendix 27 - EIA – Residential Children's Homes Strategy
Appendix 28 - EIA – Council Tax Charge for Second Homes

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 – 20th February 2024

Title: Budget Report 2024/25

1. Context (or background)

1.1 This report seeks approval for the 2024/25 Revenue Budget and corresponding Council Tax rise, Medium-Term Financial Strategy, 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 2024/25 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 12th December 2023. 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 2024/25 on 5th February 2024. Whilst the Government have provided £3.2m additional social care grant for 2024/25, the settlement in overall terms represents an ongoing net reduction in resources compared to the pre-budget report in December 2023, of c£2.1m. It is now clear that previously planned Government changes to the local government finance system will not be implemented until the next parliament, 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 2024/25.

1.3 At the start of the current Budget process the Council faced a budget deficit of £20m for 2024/25. This position has been made worse by forecast financial pressures for the year ahead, including those caused by inflation, social care activity and market conditions, and other key services including housing and homelessness. Following the Autumn Statement announcement in November 2023, the Council changed its forecasts of Government funding levels. These and the incorporation of new technical savings proposals improved the financial position such that the Pre-Budget Report presented a suite of proposals on which to consult, which collectively formed the basis of a potential balanced year one position pending the Government's Provisional Local Government Settlement, released in December 2023. This Settlement refined the detailed proposals on specific grant resources which together with a subsequent announcement of one-off social care monies and a small number of other technical changes, has enabled a balanced budget position to be proposed for 2024/25.

1.4 For 2024/25 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.

1.5 The Government's Autumn Statement 2023 indicated no new or additional ongoing resources for Local Government beyond 2024/25. In what will become the initial years of the next 5-year Comprehensive Spending review, a broadly cash flat assumption beyond 2024/25, whilst reasonable for planning purposes, would reflect a significant real term reduction in funding for the sector moving forward, once the impact of future social care and demographic changes and the continuing impact of inflation are taken into account. 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 under its One Coventry approach. This will continue to take a more co-ordinated approach to how some services are delivered across the Council and the city alongside partners, as well as continuing to pursue commercial options where these arise and are in line with Government regulation and sector guidance.

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 6. A large part of the Programme reflects the Council's continued 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 £405m 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 structure 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, and 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.

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

2023/24 £000s		2024/25 £000s	Change from 23/24 £000s	Change from 23/24 %
(164,440)	A: Council Tax Requirement	(175,898)	(11,458)	7% Increase
(116,573)	B: Business Rates Income	(123,757)	(7,184)	6% Increase
20,511	C: Tariff	22,203	1,692	8% Increase
(432,543)	D: Specific Grants	(476,828)	(44,285)	10% Increase
(118,972)	E: All Other Income	(113,541)	5,461	5% Decrease
(260,502)	**Funding of NET Budget (A + B + C)**	**(277,452)**	**(16,950)**	**7% Increase**
(812,017)	**Funding of GROSS Budget (A + B + C + D + E)**	**(867,821)**	**(55,804)**	**7% Increase**

Line A above reflects the combined effect of the city Council Tax increase of 4.9% and a higher tax-base.

Line E, in addition to other Fees and Charges, includes Council Tax and Business Rates Collection Fund surpluses/deficits, dividend payments and contributions from reserves. The Collection Fund surpluses have fallen from £12.2m for 2023/24 to £4.4m for 2024/25 which represents a reduction in planned resources of £8m. This masks a 2% increase in all other income sources consolidated within this line.

1.9.2 Limited information is available currently about the level of resources that will be available to the Council beyond 2024/25. 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 2 makes planning assumptions about the one-off grants available in 2024/25 that will continue into 2025/26 although this will require confirmation at a later date.

1.9.3 The Council is in a similar position to many councils having experienced significant reductions in Government resource allocation 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 mechanisms have enabled the Council to improve its overall resource position by a modest degree over recent years. The devolution deal currently being negotiated by West Midlands Combined Authority with the Department for Levelling Up Housing & Communities (DLUHC) on behalf of the West Midland Mets, currently provides for the potential continuation of the

West Midlands business rate retention scheme for a period of up to 10 years. This is subject to separate governance.

1.9.4 The current Local Government Finance system includes an element of redistribution, reflecting different councils' relative needs and resources. Under the current arrangements, where the Council retains 99% of the Business Rates it collects, it has to pay a tariff to central government as part of the redistribution process. This tariff payment now stands at £22.2m for 2024/25 which is £1.7m 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 resource allocation for local government and to a limited degree, indications that, in the Governments view, 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 high deprivation relative to the national position. 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 2023/24 and 2024/25 from £433m to £477m. The largest grant allocations are for Dedicated Schools Grant (£208m), Housing Benefit Subsidy (£70m), various social care funding streams (£80m), grants relating to Business Rates (£37m), Public Health (£24m), Pupil Premium (£11m), 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 principal that recommendations are supported by appropriate business cases.

2. Options considered and recommended proposal.

2.1 <u>Section Outline</u>

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 2.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 5**. 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 2024/25 Capital Programme of £157.5m compared with the initial 2023/24 programme of £104.4m. The Programme is considered in detail in **Section 2.3** and **Appendix 6**.

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 7)** and the Prudential and Investment Indicators (**Appendix 8**).

2.1.4 The report also seeks approval for a revised Council Tax Support Scheme to be implemented from 1st April 2024 following the completion of the public consultation. The Council Tax Support scheme is a means tested benefit. In considering the option of a reduced discount and banded income scheme, it is proposed that the scheme uses 'excess income' rather than earned income or total income. This approach ensures that the circumstances of households form an integral part of the assessment of entitlement. Where there is a shortfall between the income and the established needs, additional support is provided. Further details of the consultation responses received (see Appendix 10) and the changes to the Council Tax Support scheme (see Appendix 9) are set out in this report.

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 12th December 2023 as a basis for Pre-Budget consultation. A line-by-line impact of how these proposals affect the base budget is given in **Appendix 2** with an indication of where there have been changes to the figures included within the Pre-Budget Report, having given due consideration to the consultation responses. 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 2024/25 but indicate that a financial gap will arise based on the best estimates for subsequent years.

Table 2: Summary Changes to Pre-Budget Report Position

	2024/25 £m	2025/26 £m	2026/27 £m
Pre-Budget Report Position	**(1.5)**	**13.4**	**14.3**
Change to Resources	(1.2)	2.1	2.1
Change to Service & Technical Pressures	0.4	(2.5)	(2.9)
Change to Service & Technical Savings	2.3	1.3	1.3
Sub-Total: Changes from Pre- Budget Position	**1.5**	**0.9**	**0.5**
Final Budget Position	**0.0**	**14.3**	**14.8**

Table 3: Detailed changes in proposals compared with the Pre-Budget Report

	Appx 1 Line Ref	2024/25 £m	2025/26 £m	2026/27 £m
Pre-Budget Report Position		**(1.5)**	**13.4**	**14.3**
2024/25 Adults' and Children's Social Care Grant	3	(0.6)	(0.6)	(0.6)
2024/25 Additional Adults' and Childrens Social Care Grant	3a	(3.2)	0.0	0.0
New Homes Bonus	4	(0.1)	0.0	0.0
Local Government Settlement - Services Grant	4a	2.7	2.7	2.7
Reduce 2024/25 pay award contingency	5	(1.5)	(1.5)	(1.5)
Reduce non-pay inflation	5	0.4	(2.5)	(3.0)
Impact of National Living Wage increase on inflation for Adult Social Care contracts	5	1.5	1.5	1.6
Redesign Council tax Support Scheme	17	0.8	0.8	0.8
Overnight Street Light Switch off (partial)	20	0.3	0.3	0.3
Separate Food Waste Collection	21	1.0	0.0	0.0
War Memorial Park Charges	26	0.2	0.2	0.2
Final Budget Position		**0.0**	**14.3**	**14.8**

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 6** there are proposals for a Capital Programme of £157.5m which contains a number of strategically significant schemes and schemes that support the savings proposals recommended. The 2024/25 Programme shown compares with the current projected 2023/24 programme of £127.6m. A full 5-year position is detailed in **Appendix 6** with the main planned expenditure as follows:

- Very Light Rail Regional Programme – following the completion of £8.9m Stage Gate 1 the scheme now moves onto delivering Stage Gate 2, which in December 2023 received Department for Transport approval to release funding of £6.1m. To date £15m of CRSTS grant funding has been approved of the total allocated £40m specifically for the delivery of the Very Light Rail City Centre Demonstrator route within Coventry.
- £25.2m of investment in the city's highways and transportation infrastructure. This includes the continued delivery of the CRSTS programme. Specifically 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.

- £14.3m to deliver the remaining energy efficiency measures to approximately 2,000 social housing properties in Coventry, as part of the £23.9m Social Housing Decarbonisation Fund Wave 2 programme.
- A £29.2m programme in 2024/25 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.
- £24.3m commencing the main construction works for the City Centre Cultural Gateway, which includes the creation of a Collections Centre for nationally significant cultural, arts and historical artefacts, in collaboration with the Partners - Arts Council England (ACE), British Council (BC) and Culture Coventry Trust (CCT); along with the development of a newly created Cultural Institute by Coventry University.
- £2.9m for the continued delivery of the Residential children's homes review & strategy 2023-2026

2.3.3 The 2024/25 Programme requires £41m of funding from Prudential Borrowing, including schemes previously approved for the replacement vehicle programme, the commencement of main construction for City Centre Cultural Gateway – Collection Centre design costs, residential children's homes strategy 2023-2026 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 £94.6m of borrowing. This borrowing has been the subject of previous decisions and will, overwhelmingly, be supported by business cases that have identified income streams to cover the capital financing costs, all of which is factored into the Council's medium term financial plans. In relation to the Council's existing level of borrowing this adds to the Council's external indebtedness.

2.3.4 As part of this budget report, approval is sought to implement a weekly food waste collection with effect from 1 April 2025. This is a legislative requirement set out by Government, for which they have provided collection authorities with a capital grant to facilitate the delivery. As described in saving line 21: Introduce Separate Food Waste, within Appendix 2 to this report, the separation will facilitate a saving of £1m per year from 2025/26 as the remaining green waste can be treated at a much lower price per tonne. Government have provided a 'Simpler Recycling' capital grant of £1.87m, for which approval is sought to add to the approved capital programme for 24/25 onwards. This will enable early acquisition of the required vehicles and containers which are expected to be in significant demand.

2.3.5 As part of this Budget Report, approval is sought for a new capital scheme for the purchase of further temporary accommodation to contribute to the delivery of the saving line 19: Increasing alternative Temporary Accommodation provisions within Appendix 2 to this report. This relates to the further purchase and refurbishment of accommodation to support homeless single people within Coventry costing £1.5m, funded by prudential borrowing to enable further temporary accommodation capacity which in turn reduces the cost the Council must incur compared to higher cost other accommodation options.

2.3.6 In addition, approval is also sought to expand the existing Residential Children's Homes Strategy 2023-26 capital scheme to purchase a further 2 smaller homes costing £1.4m, funded by prudential borrowing which would assist in addressing the challenges of young people who require solo/small homes (2 children maximum) which have the highest cost placements, which will facilitate the delivery of the saving line 32: Expansion of Residential Strategy within Appendix 2 to this report.

2.3.7 In addition to the opportunities to receive additional external funding, the Director of Finance and Resources (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 uncommitted receipts. In addition to the Prudential Borrowing referred to above, the other main source of funding for the 2024/25 Capital Programme is £98.7m of Capital grants as follows.

Table 4: Capital Grant Funding

Grant	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £m
Department for Environment Food and Rural Affairs	0.3	1.6	0.0	0.0	0.0	**1.9**
Department for Levelling Up, Housing and Communities	17.1	0.0	0.0	0.0	0.0	**17.1**
Department for Transport	0.1	0.0	0.0	0.0	0.0	**0.1**
Disabled Facilities Grant	5.3	5.0	5.0	5.0	4.2	**24.4**
Education Funding Agency	18.1	13.7	2.5	2.4	0.0	**36.7**
West Midlands Combined Authority	54.3	61.4	43.6	18.1	9.1	**186.5**
All Other Grants & Contributions	3.5	0.5	0.0	0.0	0.0	**4.0**
TOTAL PROGRAMME*	**98.7**	**82.1**	**51.0**	**25.5**	**13.3**	**270.6**

*Totals are subject to minor rounding differences.

2.3.8 The programme is based on an approach to the capitalisation of expenditure set out within the accounting 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.

2.3.9 **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, 2024/25 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 2024/25 as a result of the 2023/24 budgetary control process. Full details of the proposed programme are included in **Appendix 6.**

Table 5: 2024/25 – 2028/29 Capital Programme (Expenditure & Funding)

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Portfolio Expenditure						
Children & Young People	2,998	4,550	1,300	100	100	**9,048**
Education & Skills	29,234	22,986	7,737	2,414	0	**62,371**
Jobs & Regeneration	37,898	39,855	37,748	12,000	3,000	**130,501**
City Services	47,446	30,890	14,939	12,053	13,081	**118,409**
Adult Services	4,682	4,983	4,983	4,966	4,182	**23,796**
Public Health & Sport	314	620	87	70	1,279	**2,370**
Housing & Communities	34,920	22,696	675	0	0	**58,291**
TOTAL PROGRAMME*	**157,492**	**126,580**	**67,469**	**31,603**	**21,642**	**404,786**
Funding						
Management of Capital Reserve	1,100	100	100	100	100	1,500
Capital Receipts	14,130	200	0	0	0	14,330
Prudential Borrowing	40,984	38,193	10,316	2,055	3,083	94,631
Grant	98,659	82,141	51,042	25,500	13,302	270,644
Capital Expenditure from Revenue	500	3,378	4,924	2,878	2,878	14,558
Section 106	2,119	2,568	1,087	1,070	2,279	9,123
TOTAL PROGRAMME	**157,492**	**126,580**	**67,469**	**31,603**	**21,642**	**404,786**

2.3.10 **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

	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s
Forecast (Receipts Brought Forward)/Receipts Shortfall	-34,480	-24,198	-638	-3,787
Forecast/potential New Receipts	-1,195	-2,570	-20,099	-580
Total Receipts	**-35,675**	**-26,768**	**-20,737**	**-4,367**
Commitments and capital contingency	11,477	26,130	16,950	3,855
Receipts Carried Forward (-)	**-24,198**	**-638**	**-3,787**	**-512**

2.3.11 **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. The pension deficit crystalises over time as payments to scheme members become due. 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. However, this deficit has reduced significantly from £615m at 31st March 2022 to £25m at 31st March 2023, almost entirely due to a rise in the corporate bond yield, which in turn increases the discount rate used to determine the obligation. 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 to this report as Appendix 7. The total value of loans provided or committed, as at 31st March 2024, is forecast to be £52.3m. Where the Council has committed 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.

2.3.12 **Capital Financing Requirement**

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

Table 7: 2024/25 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
Opening CFR - 1st April	**513.0**	**507.1**	**525.9**	**540.9**	**529.3**	**508.0**
Capital Spend met form borrowing	14.2	41.0	38.2	10.3	2.1	3.1
Minimum Revenue Provision	-18.0	-20.0	-20.8	-21.9	-23.4	-24.0
Other	-2.1	-2.2	-2.4	-0.0	-0.0	-0.0
Closing CFR - 31st March	**507.1**	**525.9**	**540.9**	**529.3**	**508.0**	**487.1**

Over the 5 years from 1st April 2023, it is forecast that the CFR will reduce marginally reflecting the level of the borrowing required to meet the capital programme, less amounts set aside to repay debt as Minimum Revenue Provision (MRP).

2.3.13 **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 reduce from £41.4m in 2024/25 to £40.8m in 2026/27, reflecting the net impact of capital expenditure to be resourced by borrowing and the full repayment of West Midlands transferred debt in 2025/26. 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.

2.3.14 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 2024/25

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 2023/24 to 2026/27 for the treasury and capital programme management are set out at **Appendix 8.**

- 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 2.4.5.

2.4.2 **Economic Environment**

Economic Background:

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation increased to 4.0% in the year to December 2023, up slightly from 3.9% in November. The core CPI inflation remained at 5.1%, lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023.

US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook:

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

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 (December 2023):

Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early mid-2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. 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 2024, the Council will hold an estimated £317.3m of 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 2024

	31 March 2023 Actual £m	31 March 2024 Forecast £m
External borrowing:		
Public Works Loan Board	184.9	180.7
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	**252.9**	**248.7**
Other liabilities:		
Private Finance Initiative	57.0	53.9
Other Liabilities	10.0	10.0
Transferred Debt (other authorities)	6.7	4.7
Total other liabilities	**73.7**	**68.6**
Total gross external debt	**326.6**	**317.3**

Table 2: Estimated Treasury Investments at 31 March 2024

	31 March 2023 Actual £m	31 March 2024 Forecast £m
Treasury investments:		
The UK Government	0.0	0.0
Local authorities	0.0	0.0
Other government entities	0.0	0.0
Secured investments	0.0	0.0
Banks (unsecured)	0.0	0.0
Building societies (unsecured)	0.0	0.0
Registered providers (unsecured)	0.0	0.0
Money market funds	42.9	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	**72.9**	**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**

The Council at 31 March 2024 will hold an estimated £317.3m of external 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:
Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to 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, pensions and local authorities, while also investigating the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

The PWLB is the main, competitively priced, flexible source of loan finance for funding local authority capital investment. As such it can be a significant source of liquidity. With some limited exceptions, PWLB loans are not available to local authorities that plan to buy investment assets primarily for yield, such as property purchased for a financial return, where they are not clearly serving some other significant service objective.
In respect of borrowing more generally, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The Council may also borrow further short-term loans to cover cash flow shortages.

The main sources of borrowing are:
- HM Treasury's PWLB lending facility
- bank or building society authorised to operate in the UK.
- UK Local Authority and UK public sector body
- UK public and private sector pension funds (except West Midlands Pension Fund)
- Stock Issue (Bond Issue)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.
- UK Infrastructure Bank Ltd

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.
- UK Infrastructure Bank Ltd- It provides infrastructure finance to tackle climate change and support regional and local economic growth across the United Kingdom and is funded by HM Treasury.
- 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 2024/25, and although the Council

understands that the lenders are not likely to exercise their options even 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

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 existing 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.
- 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 gross 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).

- At the time of writing, the government is consulting on changes to the MRP regulations. Proposed regulations would allow no MRP to be made on certain loans provided by Councils, subject to a number of detailed conditions in respect of the nature of the loan; the level of impairment provision already provided on a loan; the outstanding balance of the loan and the level of MRP already charged in respect of the loan. The approach to making MRP on loans provided by the Council will be reviewed and reported on as appropriate in the light of enacted regulations.

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 £45m and £106m, 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 uncertainty in interest rates and the volatility of 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 public services. The main investments used by the Council for any surplus cash are 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 2023/24.

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 and therefore the Authority's ESG investment policy does not currently include ESG scoring. 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	2 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.

The time limits indicated above are a maximum limit. Operationally, the Council will act on the most recent recommendations from the Authority’s treasury management adviser Arlingclose.

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, 2020 and 2022, 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 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 **Treasury Management Advisors**

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

2.4.10 **Treasury Management Staff Training**

The Council's process of performance management, of which competency-based appraisals are central, addresses the training requirements of individuals. Staff with involvement in treasury issues attend events, including training courses, seminars and networking sessions focused on treasury management as appropriate.

2.4.11 **The Prudential Code**

The current capital finance framework has historically rested on the principle that local authorities can borrow whatever sums they see fit to support their capital programmes, as long as they are affordable in revenue terms. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. The indicators are explained and shown in **Appendix 6.** These indicators reflect the requirements under the Prudential and Treasury Management Codes.

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 some authorities have overstretched 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 7 and the associated Commercial Investment Indicators in Appendix 8. 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, 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 categorised 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 7) 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 representing 9.2% (8.3% in 2023/24) of Net Revenue Stream (Indicator 7) and with an asset value of £468.0m representing 24% 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 2024/25 for investment in service loans and shares, excluding fluctuations in value. It is proposed that limits of £70m and £55m respectively are set for 2023/24 (Appendices 5 & 6), giving a combined total of £125m, representing a reduction of £21m compared to 2023/24, due to the

Council no longer planning to invest in commercial recycling infrastructure. These limits provided combine headroom of c£17m future loan and share commitments. Revision of these limits would require the approval of Council.

2.5.8 Whilst the Council holds significant commercial assets, including shares, loans, and property many of these assets have been held for a number of years and are an integral part of the economic infrastructure of the city, reflecting both current and past economic regeneration and development policies. They do not form part of an inventory of assets that are routinely bought and sold as part of a “trading” strategy. The Commercial Investment Strategy together with the Council Medium Term Financial Strategy processes provide the structure within which the Council’s overall commercial risk is managed. This includes a level of reserves which is adequate from the wider risk and resilience perspective.

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 423 respondents completed a survey, and 21 email responses were received. Two online sessions were held with employees and two for residents (one online) to hear about the plans and provide feedback. Further opportunity to comment was offered to the Trades Unions and the Chamber of Commerce. Consultation responses have been considered and details arising from the consultation, including areas of concern and areas of support, are set out in Appendix 3.

3.2 In addition, 3 petitions were received as part of the budget consultation process in respect of 2 separate proposals contained in the consultation documents. The petition organisers/sponsors were invited to the meeting of the Cabinet Member for Strategic Finance and Resources on 5th February 2024 where it was resolved that these petitions and the issues raised will be considered as part of the Budget Setting proposals contained in this report. Further details of the petition and the issues raised and discussed are set out in Appendix 4 of this report.

3.3 In relation to the Council Tax Support Scheme, the consultation was carried out between December 2023 until February 2024 for a period of 8 weeks. The consultation exercise undertaken included the following:

- Hosted on the Let’s Talk Coventry platform.
- Frequently Asked Questions outlining where to gain further support, who pays etc.
- Everybody in receipt of Council Tax Support were contacted directly 14,022 electronically, 2190 of these were undelivered and letters were issued to these customers. There were a further 1596 letters issued to customers where we held no phone number or email address for them.

- Two public drop-in sessions were arranged at Customer Services Centre on January 9 and 19, so those seeking support with any specific queries could attend and gain advice and support.

- A session was held with advice agencies and partners on January 10th to discuss the proposals.

- The consultation was promoted across the city through Let's Talk Coventry newsletters through December and January.

3.4 The key theme that arose from the public consultation was that people were overwhelmingly opposed to the reduction in maximum support from 85% to 75%. Having given due regard to the responses, the proposal set out within this report is that the maximum support be set at 80%. Further information in relation to this is set out in Appendices 9 and 10 of the report.

4 Timetable for implementing this decision

4.1 Most of the individual changes identified within this report will take effect from 1st April 2024. The proposed profile of these changes is set out in Appendix 2 of the report.

5 Comments from the Director of Finance and Resources (Section 151 Officer) and the Chief Legal Officer

5.1 **Financial Implications**

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2024/25 revenue and capital budget supported by the Council Tax setting Report that will be considered on the same agenda alongside this report.

5.1.1 Financial implications - Medium Term Position

This report sets out proposals that will deliver a balanced budget for 2024/25 and indicative positions for the two following years. The revised new funding arrangements that have been considered for some time by Government 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. With the exception of the most recent additional social care funding announcement that provided £3.2m for Coventry in 2024/25, and also the services Grant which Government have indicated will cease completely, It is reasonable to assume that most other funding announced for 2024/25 will be available as ongoing resource for the Council in the future and some of this has now been included in future forecasts. However, this is a risk, and it will not be possible to provide a robust forecast of this funding until the Government provides further detail as part of future announcements which will be part of a new Comprehensive Spending review. Despite this, the view of the Director of Finance and Resources (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 a combination of a consideration 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 2024/25 will not be known until finalisation of the 2023/24 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2022/23 stood at £123m. Other reserve balances set aside to fund capital schemes stood at £40m and balances owned by the Council's local authority-maintained schools and outside the Council's control, stood at £33m at 31st March 2023. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2023. The level of balances is set out in the table below.

Table 12: 2022/23 Reserve Balances

	1st Apr 2022 £000	(Increase)/ Decrease £000	31st Mar 2023 £000
Council Revenue Reserves			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(28,287)	(2,961)	(31,248)
Private Finance Initiatives	(9,626)	1,518	(8,109)
Early Retirement and Voluntary Redundancy	(9,323)	2,082	(7,242)
Management of Capital	(3,410)	(2,913)	(6,324)
Innovation and Development Fund	(5,499)	431	(5,068)
Reset and Recovery	(5,467)	0	(5,467)
Covid 19 Funding	(10,981)	6,721	(4,260)
Air Quality Early Measures	(4,232)	312	(3,920)
Public Health	(2,469)	(1,280)	(3,749)
Potential Loss of Business Rates Income	(7,735)	4,302	(3,433)
Corporate Priorities (2020/21 Outturn Underspend)	(8,698)	5,705	(2,993)
Commercial Developments	(3,348)	666	(2,682)
Homes for Ukraine	0	(2,530)	(2,530)
Friargate Lifecycle	(1,594)	0	(1,594)
City of Culture & Commonwealth Games Legacy	(3,983)	2,582	(1,401)
Adult Education Income	(1,086)	(5)	(1,091)
Insurance Fund	(1,497)	433	(1,064)
Corporate Property Management	(1,369)	550	(819)

Children's Social Care Family Valued Programme	(1,229)	585	(644)
Other Directorate	(14,538)	(613)	(15,151)
Other Corporate	(5,843)	2,383	(3,460)
Total Council Revenue Reserves	**(140,493)**	**17,967**	**(122,527)**
Extra-Ordinary Item - Covid Business Rates Relief	**(18,635)**	**18,635**	**0**
<u>Council Capital Reserves</u>			
Useable Capital Receipts Reserve	(31,187)	(3,292)	(34,479)
Capital Grant Unapplied Account	(5,469)	(276)	(5,745)
Total Council Capital Reserves	**(36,656)**	**(3,567)**	**(40,224)**
<u>School Reserves</u>			
Schools (specific to individual schools)	(25,065)	2,108	(22,956)
Schools (related to expenditure retained centrally)	(5,927)	(4,310)	(10,237)
Total Schools Reserves	**(30,991)**	**(2,202)**	**(33,193)**
Total Reserves	**(226,776)**	**30,833**	**(195,943)**

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 material 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 (based on 2021/22) 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.

Taking all this into account, it is the view of the Director of Finance and Resources (Section 151 Officer) that overall levels are adequate to support the recommended budget for 2024/25. 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 2024/25 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, Appendix 1 to this report. 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 Director of Finance and Resources (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, Appendix 1 to this report, 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 Leadership Board.
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 overall 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 Services. The current inflationary environment will continue to influence some of 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 2024/25. Within this environment, it remains important for work to continue to provide this care in the most cost-effective manner as possible and management is committed to identifying and implementing 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 another year of substantial increase to the National Living Wage in 2024/25 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 and difficulties in recruitment and retention, alongside the widely reported pressures across the health system (a key driver of activity into Adult Social Care). Although inflation levels are beginning to slow, costs are still increasing at a rate well above the national 2% inflation target and are expected to continue for the foreseeable future, adding further strain to a market already heavily under pressure. 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.

5.1.4.3 **Housing and Homelessness -** Nationally housing & homelessness services have seen highly significant increases in demand for support during 2023/24 with the number of people accessing/receiving homelessness support reaching its highest ever level. In Coventry the number of people seeking assistance with housing issues and subsequently being placed in Temporary Accommodation (TA) has increased by over 40% during 2023. There are a number of drivers that have contributed to the increases, including the cost-of-living crisis, a buoyant private rented sector and a lack of social housing. Although this upward trend has begun to slow following the implementation of Coventry's detailed TA reduction plan, it is expected that numbers of singles and families in TA will continue to increase during 2024/25. A number of further mitigations are being put in place to limit this as far as possible and secure appropriate accommodation through additional, lower cost TA schemes, in preference to more expensive short-term options. The Council will need to continue to monitor emerging trends in this area to ensure support is provided in the most appropriate and cost-effective way.

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

- Following anticipated completion of Two Friargate and Hotel Indigo at Friargate Business District there remains an intention to build out a further three buildings to be funded from recycled income from Two Friargate in due course.
- 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 City Centre Cultural Gateway project.
- Following E.ONs appointment as the city's new Strategic Energy Partner in 2023, it is intended that the Council and E.ON will work together to develop ideas and projects to reduce carbon and benefit Coventry's residents.
- Financial arrangements made on commercial terms to help support local organisations and the Council's arms length companies.

These projects are subject to a range of ownership and company structure arrangements, which involve 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). 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, it must be recognised that their future financial performance will always be subject to a degree of risk.

Decisions that have been taken in prior years, or that are imminent have required a level of support due in part to respond to legacy Covid conditions, the cost-of-living crisis and the difficult trading & inflationary conditions affecting many sectors of the economy and 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.

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

5.1.4.6 **Local Government Finance Changes** – 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. However 2025/26 will see the beginning of a new Comprehensive Spending Review and the 2025/26 finance settlement could see changes to the distribution of core funding and specific grant allocations across the sector which remains a risk. However, due to the nature of accounting for these local income sources, the risk applies to future years such that the 2024/25 budget estimates are secure.

5.1.4.7 **Equal Pay Claims-** A revenue financial risk exists for the Council in respect of Equal Pay Claims. A number of claims have been received from employees which, if successful, would result in a one-off revenue cost to the Council. The issue is still very much at an early stage, and the Council is robustly defending the claims, so to date there is no reliable assessment of the likely success, or the financial cost if claims do eventually prove to be valid. The matter will inevitably be subject to complex and protracted legal proceedings, and potential negotiations between relevant parties. Given the significant uncertainty around whether a financial obligation exists, or the value of any obligation, we are not at this point able to make any accurate financial assumptions in the medium-term financial strategy.

5.2 **Legal implications**

Budget Policy Proposals

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.

The Council's prospective expenditure must not be likely to exceed its resources available to meet that expenditure and the proposals set out in this report meet this obligation. Any amending or substituted proposals must also achieve a balanced budget.

It should also be stated that Members are subject to the Council's duty to set a balanced budget, and at common law owe a fiduciary duty to taxpayers to do so. Members must receive and take into account the advice of officers, particularly the section 151 officer, when considering and deciding the Council's budget.

As the decision makers, members must have due regard to the Council's equalities duties when setting the budget.

Council Tax Support Scheme

The Local Government Finance Act 1992 as amended includes a requirement for the Council to adopt any revisions to its local Council Tax Support scheme by 11 March of the year in which changes are to be implemented.

Failure to do so would result in the Council having to maintain the scheme currently in place.

Section 67(2) (aa) Local Government Finance Act 1992 as amended by the 2012 Act, states that the implementation of a local Council Tax Support scheme and any subsequent revisions to the scheme will be a function reserved to full Council.

The framework within which billing authorities must devise their Council Tax Reduction schemes is contained in Part 1 of Schedule 4 to the Act. This Schedule provides that the following matters must be included in an authority's scheme:

a. a description of the classes of person entitled to a council tax reduction;
b. details of the reductions which are to apply to those classes (different classes of persons may be entitled to different reductions);
c. the procedure under which a person may apply for a Council Tax reduction; and
d. an appeals procedure covering decisions over entitlement to a reduction and the amount of any reduction due.

These items are all included in the proposed revised schemes.

Consultation must be carried out in accordance with the 2012 Act ensuring that all interested parties are able to give a view which has also been completed with the results of the consultation set out in Appendix 10 of this report.

The Council must also consider whether there are any groups or individuals that are adversely impacted by any changes when making its final decisions on a local scheme and an Equalities Impact Assessment is attached at Appendix 16 of this report.

The function of revising the Council Tax Support scheme can only be approved by Full Council.

<u>Introduction of separate weekly food waste collection</u>

The Environmental Act 2021 amends the Environmental Protection Act 1990 to insert a revised section 45A. This creates a duty on the Waste Collection Authority to arrange at least weekly a collection of food waste.

All procurement activities undertaken by the council, for example the procurement of new food waste bins, will be conducted in accordance with the Public Contract Regulations 2015 (PCR 2015) and the Council's Contract Procedure rules as relevant.

6 Other implications

6.1 How will this contribute to achievement of the One Coventry Plan
https://www.coventry.gov.uk/strategies-plans-policies/one-coventry-plan

The Council, alongside many other Local Authorities, continues to be faced with challenging resource constraints over the coming years, which will have a direct impact on our ability to deliver front-line services.

The recommendations made in this report will enable a balanced budget to be set for the next financial year and the Medium-Term Financial Strategy (included as Appendix 1) details the approach that the Council will take in meeting future financial challenges. As such this report lays the foundation for ensuring the continued financial sustainability of the Council, which is a key enabling priority of the One Coventry Plan.

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?

Whilst the approach to setting the budget for 2024/25 has sought to deliver services more efficiently and effectively such that services and jobs are protected, some of the policy proposals could impact residents, partners, and the workforce. 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 and transform to meet the financial challenges that it faces. For example, the Council will need to keep under review as part of its transformation, the extent to which Council staff work from home on a regular basis as opposed to working from a Council (or partner) building in the interests of both efficient service delivery and financial sustainability.

6.4 **Equalities / EIA**

Budget Policy Proposals
Equality Impact Assessments (EIAs) on the policy proposals contained in this year's Budget report can be found at Appendix 12-28 of the report. A collective analysis of all these EIAs has been produced and can be found in Appendix 11 of the report. These proposals will be kept under review and further updated as necessary over the coming weeks and months as they are implemented operationally. As part of this process, the EIAs will also be consolidated so that equality impact across all proposals can be fully understood.

Council Tax Support Scheme
An equality impact assessment (EIA) has been carried out to understand the likely impact of implementing the recommendations contained in this report following the completion of the consultation on the revisions to be made to the scheme. This EIA can be found in Appendix 16 to the report.

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

The Council's One Coventry Plan identifies climate change as a key priority. Notwithstanding the financial challenges faced by the Council, these priorities have been a constant consideration by elected members and officers throughout the process to deliver a proposed balanced budget for 2024/25. The Council remains focused on its Climate Change Strategy to support the commitment it has made to respond to the climate change agenda and as such, many initiatives in the Capital Programme reflect this ambition, including schemes such as Coventry Very Light Rail, Green travel alternatives such as cycling infrastructure, air quality and transport solutions, all of which are all designed to have positive impacts on the environment.

6.6 **Implications for partner organisations?**

Budget Policy Proposals
The options contained within this budget report include potential impact on some of the Council's partner organisations. We will engage with key partners on these matters as appropriate.

Council Tax Support Scheme
Reducing entitlement to benefit has potentially significant impacts on partner organisations, particularly for advice agencies and other third sector organisations. The Council is in regular contact with partner organisations to ensure they are kept informed of potential changes to the Council Tax Support scheme.

There are implications for major precepting authorities, and the Council has consulted with West Midlands Police, West Midlands Combined Authority and the West Midlands Fire and Civil Defence Authority in respect these implications.

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