



Coventry City Council

7.2.1

Public report

Report to

Cabinet
Council
Scrutiny Board 1 (Audit Sub-Group)

2 December 2008
9 December 2008
7 January 2009

Report of

Director of Finance and Legal Services

Title

Quarter 2 2008/2009 Revenue Monitoring and Corporate Capital Monitoring and Treasury Management Report (July – September 2008)

1 Purpose of the Report

1.1 The purpose of this report is to advise Management Board of the Quarter 2 revenue and capital forecast outturn position for 2008/09. This is based upon the spending and income after 6 months of the financial year, (and the actions being taken to ensure that net spending is managed within the Council's budget). The report also reviews treasury management activity during the year, including borrowing, lending and investments. In addition, 2008/09 Prudential Indicators are reported on under the Prudential Code for Capital Finance.

2 Recommendations

The Cabinet are asked to recommend the City Council to:

- 2.1 Note that, at the end of September (Quarter 2), the forecast revenue outturn position is £262.5m against a budget of £257.7m. This represents a forecast overspend of £4.8m.
- 2.2 Continue to instruct all senior managers and budget holders to take all possible action to balance budgets in 2008/09.
- 2.3 Approve the revised capital estimated outturn position for the year of £87.3m, incorporating:
 - (i) £2.7m additional spending, the majority of which is funded by external grant monies (see Appendix 2).

- (ii) £6.1m rescheduling of expenditure into 2009/10, the majority of which is corporately funded (see Appendix 4).

This spending level, compared with resources available to fund the capital programme, represents a funding shortfall of £9m in 2008/09.

- 2.4 Instruct all budget holders to withhold from incurring non-essential expenditure until the new financial year, and ask the Capital Working Group to continue to identify all non-essential expenditure.
- 2.5 Approve a revision to the Treasury Management Strategy and Investment Policy, increasing the amount that can be invested with the Government's Debt Management Office from £10m to £20m (Section 8.1).

3 Information/Background

- 3.1 Cabinet approved the City Council's revenue budget of £257.7m and a capital programme of £91.3m on 19th February 2008. This is the second quarterly monitoring report for 2008/09 which is presented in accordance with the City Council's Constitution, budget and policy framework and financial procedures.

4 Forecast Outturn for 2008/09

- 4.1.1 The Quarter 2 revenue budget monitoring exercise has identified a forecast overspend of £4.8m. Overspends have been forecast across several Directorates with the most significant being in Children Learning & Young People, City Development, Community Services and City Services as shown in Table 1 below. Clearly as our financial reporting gets closer to the end of the financial year it is expected that these financial projections will become more certain.

Table 1. Forecast Variations

| Directorate | Revised Budget | Forecast Spend After Action/ Use of Reserves | Net Forecast Variation |
|------------------------------------|----------------|--|------------------------|
| | £m | £m | £m |
| Chief Executives | 8.5 | 8.2 | (0.3) |
| City Development | 5.1 | 6.2 | 1.1 |
| City Services | 30.0 | 31.0 | 1.0 |
| Children Learning and Young People | 74.9 | 76.2 | 1.3 |
| Community Services | 104.2 | 105.2 | 1.0 |
| Customer and Workforce | (0.5) | (0.3) | 0.2 |
| Finance and Legal Services | 5.3 | 5.2 | (0.1) |
| Schools | 0.3 | 0.3 | 0.0 |
| | 227.8 | 232.0 | 4.2 |
| Contingency & Central Budgets | 13.8 | 14.4 | 0.6 |
| Levies | 16.1 | 16.1 | 0.0 |
| Total | 257.7 | 262.5 | 4.8 |

5 Director of Finance & Legal Services Overview of Quarter 2

- 5.1 The revenue budget is currently forecasting an overspend of £4.8m at Quarter 2. This compares to a forecast £3.4m overspend at the same period in 2007/08. The actual outturn in 2007/08 was a balanced position.
- 5.2 The projected outturn positions reflect the implementation of management action in some Directorates and these are referred to in the appendices. Further management action will need to be taken during the rest of the year to reduce the remaining forecast overspend.
- 5.3 A shortfall in resources to fund the Capital Programme of £9m is anticipated in 2008/09. The level of capital receipts available to fund spending is £7.7m lower than forecast in September 2008.

In response to the forecast revenue and capital position, the Director of Finance and Legal Services has previously recommended to Management Board to:

- instruct all Budget Holders to withhold from incurring any further non-essential revenue expenditure until the new financial year.
- approve a restriction on capital spending in 2008/09, delaying any non-essential and non-contracted spend for the remainder of the year.

The Capital Working Group have recently scrutinised spending projections for 2008/09 and this exercise has realised approximately £6m of rescheduling into 2009/10 (see Appendix 4).

Over the coming weeks Management Board will be exploring the options for managing the capital programme over a two-year perspective, 2008/09 and 2009/10. The capital programme will be scrutinised with a view to reducing corporately funded spending and re-phasing the capital programme wherever possible. The initial results of this work will be incorporated in the pre-budget report in December.

However, there still remains a strong probability that despite all of the actions taken and the total level of rescheduling identified, a balanced programme will still not be achieved. The final monitoring report of the financial year in June 2009 (2008/09 Revenue And Capital Outturn report) would therefore reflect some temporary borrowing to cover the balance of unfunded spend. This temporary borrowing will be undertaken on the basis that the first call on subsequent corporate capital receipts will be to repay that borrowing.

6.0 Individual Directorate Comments / Forecasts

A summary of each Directorates year-end forecast position is provided below.

6.1 Chief Executive's

Underspend £0.3m

This underspend mainly relates to savings from vacant posts across the Directorate but principally within Community Safety and Neighbourhood Management. The Directorate faces the challenge of maintaining services to both internal and external customers whilst holding significant vacancies.

Careful management of budgets is being maintained throughout the remainder of the year to ensure that services are delivered within budget, savings targets are achieved and where possible further savings are identified.

The Directorate will be co-ordinating the delivery of the £0.1m savings targets for Communications. This target relates to activity across all directorates.

6.2 City Development

Overspend £1.1m

The overspend takes account of a number of concerns regarding the impact of the economic downturn, however if the market position worsens there could be further pressures on the service.

- Property Management - an estimated net £0.7m overspend in Building and Consultancy Services largely due to a decline in trading income; a delay in achievement of NNDR review savings, £0.1m; and changes in Business Rates and City-wide BID levy rules are expected to result in additional costs of £0.2m as void properties within the Commercial Portfolio that previously did not receive a charge will now be chargeable.
- Planning and Strategic Transportation – there is a predicted £0.2m shortfall against income targets within Building Control due to an estimated 20% fall in applications and non-achievement of additional income targets set for Home Information Packs. There is also a predicted £0.1m adverse variance within Planning, primarily due to a fall in planning applications fee income.
- Regeneration Services – a predicted £0.1m shortfall in car parking income largely due to falling season ticket sales.
- Property Management – an estimated over-recovery of rental income within Commercial Portfolio, £0.2m

Management action has identified a one-off resource of £0.1m to be applied to the net position. Work is being commissioned to review overheads, work volumes, and pricing levels in Building Services, Building Control and Car Parks.

6.3 City Services

Overspend £1.0m

City Services is expecting to manage significant historical budget pressures within Highways Services, but faces significant cross Directorate pressures linked to global economic issues in fuel costs (£0.2m) and energy costs in Street Lighting (£0.5m).

There are further pressures in the ring fenced Waste Disposal account (£0.1m) and Catering (£0.3m). Whilst the historic heavy decline in meal numbers has started to plateau, considerable growth is required to bring the financial position back within a balanced budget.

A detailed review of the service provision in Catering and Cleaning, and discussions with schools is ongoing to identify a solution to these ongoing pressures.

6.4 Children, Learning and Young People

Overspend £1.3m

The increase in the overspend position since quarter one largely reflects a reduction in the planned level of management action round Children's Transport, which is no longer felt to be achievable, as it is proving very difficult to make progress on this issue. In addition, further pressures totalling £1.1m have been identified but will be addressed by planned management action.

The numbers of Looked after Children are higher than planned, and this is continuing to cause significant pressures in parts of children's social care and other activity driven areas including

transport. Legal costs have also increased as a result of changes in legislation. The projected underspend in residential placements reflects the impact of the Northern Care contract, agreements with service providers to fix low inflationary increases, and a small increase in the number of foster carers who offer placements at lower cost. The position also includes an overspend on school broadband running costs as a result of increased BT charges.

Children's transport continues to be a significant problem area for Children, Learning and Young People, and the current forecast reflects the estimated level of overspend in 2008/09 which is in excess of £1m. Value for Money work on transport, within the partnership with PWC, is about to commence. The PID has been completed and a project board put in place. This will focus on improving the operation of the current system and any recommendations will be taken forward as soon as possible. In addition Scrutiny Board 2 are looking at the current policy for Home to School and Transport for Children in Need (including Children Looked After) and it is expected that the options it suggests for achieving increased efficiencies will be taken forward in the 2009/10 financial year. In addition Children, Learning and Young People Leadership and budget holders are reviewing current practice to see where savings can be made. On this basis approximately £0.5m of the projected level of 2008/09 overspend in children's transport has been built into management action.

Management action has also been built in for some pressures in children's social care, where we are in the process of doing further investigative work. We will continue to identify other areas of management action in order to further reduce the projected level of overspend and deliver services within allocated budget levels.

6.5 Community Services

Overspend £1.0m

Pressures in external purchasing of social care for both adults and older people have been identified; some additional pressures are still possible due to a slight delay in the NHFO programme. This will need a continued focus throughout the year to ensure that planned management action is effective.

Culture, Leisure and Libraries are still identifying additional pressures driven by the transfer of the Council's heritage and museum services to trust status (£0.3m). Also, new arrangements regarding the Coventry Sports Trust have incurred additional costs. (£0.1m)

An additional one-off pressure has emerged of £0.1m in respect of an I.T software contract that relates to the previous 3 years.

Pressures are emerging for the first time in Housing Services in relation to increasing numbers of homelessness. Forecasts at this stage indicate that figures could double by year-end. This is subject to further analysis and close monitoring. Processes are in place to improve predictions of how the Housing market is being affected by the current economic climate.

6.6 Customer and Workforce

Overspend £0.2m

Considerable management effort is being undertaken to control overspends and taking corrective management action in addition to achieving savings targets and generating new savings plans to support the 08/09 budget gap.

Overall the projected year-end position at quarter two is a £0.2m overspend, net of management action. This comprises of the £0.1m pressure relating to the car park pass review and a £0.1m pressure relating to the ongoing repayment of the capital cost of the WAN2 project. Other overspends within the Directorate are off set by underspends.

The Directorate is coordinating a review to achieve a £0.1m saving target across the Council by reviewing the allocation of car park passes. This area has not progressed as quickly as anticipated and no savings are expected to be achieved this year. In addition, some of the budget originally identified for the ongoing support of the WAN2 project is not available. The Directorate will work towards finding further savings in year to offset this pressure, which is ongoing in future years.

6.7 Finance and Legal Services

Underspend £0.1m

Financial Management - £0.3m underspend this relates primarily to one-off salary underspends resulting from vacancies.

Revenues and Benefits - £0.2m overspend this relates largely to Local Tax and is being caused by a projected under recovery of court cost income of £0.3m, due to a reduced number of summons being issued for Council Tax, less managed salary underspends of £0.1m.

Special Projects, Internal Audit & Procurement – £0.1m underspend this results from salary underspends due to vacancies.

Legal Services - £0.1m overspend this relates largely to income pressures. There is an estimated under recovery of Land Charges income of £0.1m resulting from the depression in the housing market. Additionally, there is a £0.1m under recovery of legal fee income. These pressures are offset by reduced salary costs of £0.1m.

Whilst we cannot directly influence the service activity causing the income pressures, the directorate is continuing to look at other ways of managing spend to ensure that the net outturn position is favourable.

6.8 Contingency & Central Budgets

Overspend £0.6m

AMRA - this is a result of increased 2007/08 capital spend being resourced from Prudential Borrowing. It broadly represents £0.1m increased MRP and up to £0.2m interest.

Promoting Health at Work - funding for new posts £0.1m, relating to an increase in promoting health at work meetings initiated by the new sickness triggers and the attendance of HR officers at these meetings.

In addition to the above there is a need to identify resources in 2008/09 for former PSA funded services amounting to approximately £0.4m, and a potential shortfall in LABGI grant following a recent Government announcement may potentially leave a funding shortfall of circa £1m. The position on these areas will need to be clarified through the year.

7 Revised Capital Budget 2008/09.

7.1 The latest position for 2008/09 is presented in summary form in the table below:

Table 2. Movement in the Capital Budget

| | £m |
|---|-------------|
| Estimated Outturn September 2008 | 90.7 |
| Approved/Technical Changes (see Appendix 2) | 2.7 |
| Net Underspend (see Appendix 5) | 0 |
| Rescheduling (see Appendix 4) | (6.1) |
| Revised Estimated Outturn 2008/09 | 87.3 |

The above table updates the estimated outturn approved by Cabinet on 9th September 2008 to take account of approved/technical changes to the budget, net underspendings and net expenditure rescheduled into future years. This gives a revised projected level of expenditure for 2008/09 of £87.3m.

The net underspend, analysed at Appendix 5, includes a potential overspend of £0.5m on the Primelines scheme managed within City Development. This scheme, which started in 2003 and has a total scheme value of over £30m, is currently coming to a close. Management action is being taken and it is hoped will result in the identification of additional funding to finance the completion of this scheme.

The rescheduling includes approximately £1.9m of slipped contract expenditure in relation to the Wide Area Network (WAN) scheme, following delays to some of the civil works. However, although costs in the current year will be lower than originally expected, the overall cost of the scheme is around £1m higher than is currently budgeted for in the programme (£10.8m). This has been caused primarily by the need to change the method being used to lay fibres in certain types of highway construction where the slot cutting method is not suitable.

More details on the Primelines and WAN schemes will be the subject of a future Cabinet report.

7.2 Funding the Capital Programme

The revised forecast resource position for 2008/09 is presented in the table below. Notwithstanding the actions taken to date there still remains a potential shortfall of resources amounting to £9m.

- The usable capital receipts figure reflects a total downward revision of £14m (including the impact of the £2.9m adjustment identified below) since the programme was originally set in February. This reduction reflects the ongoing turbulence of worldwide financial markets and the impact of this on the property market as well as a temporary delay in the achievement of some planned receipts due to local circumstances. Work is ongoing to examine the medium-term impact of local issues and wider economic circumstances on the eventual level of receipts for this year and the next five years as part of the Budget Setting process.
- The level of funding required in 2008/09 has been increased by £2.9m as a result of the knock on effect of the additional prudential borrowing undertaken in 2007/08 (Para 7.3 of the Revenue and Capital Outturn report 17th June 2008).

- In line with standard practice we have sought to maximise the use of borrowing approvals and grant resources in order to ensure that we can fund as much of the planned programme as possible.

Table 3. Funding the Capital Programme

| | £m |
|-------------------------------------|-------------|
| Borrowing | 11.5 |
| Prudential Borrowing | 12.6 |
| Grants and Other Contributions | 38.0 |
| Usable Capital Receipts | 8.8 |
| Revenue Contributions | 6.4 |
| Leasing | 1.0 |
| Forecast Resources Available | 78.3 |
| Estimated Outturn | 87.3 |
| Shortfall in Resources | 9.0 |

7.3 The Capital Working Group have met twice in September and have closely scrutinised spending projections on a scheme by scheme basis. This exercise has resulted in approximately £6m rescheduling of corporately funded spend into 2009/10. However, depending on a number of factors, for example the weather conditions throughout the winter months, there remains a strong possibility that there will be some further rescheduling of corporately funded spend in the second half of the year.

7.4 The Capital Working Group, in conjunction with officers across the council, will continue to pursue further options to maximise the resources that can be applied to fund the 2008/09 Programme.

8. Treasury Management Activity in 2008/09

8.1 Recent Market Conditions

In managing the day to day cashflow of the authority, short term borrowing or investment is undertaken with financial institutions and public bodies. Recent events in the banking world have brought into focus the issue of risk. Our Treasury Strategy and Investment policy is approved annually as part of the budget report. This details who we can invest with and the maximum amount that can be invested. These limits are based on credit ratings, supplied by independent credit rating agencies. In common with other local authorities we only invest with institutions that are rated as strong.

Whilst the City Council had no investments with any Icelandic banks at the time those banks collapsed, they were rated at a level that would have allowed investments to be made. Notwithstanding the fact that we have followed prudent and recommended treasury management practice, current events prompt a re-evaluation of these. Whilst this is clearly an evolving process, we are currently looking to:

- Invest for shorter periods including in current or "call" accounts;
- Keep a closer watching brief on market conditions;
- Invest more frequently with the Government's Debt Management Office (DMO). Currently the limit is set at £10m for the DMO. It is proposed that this is increased to £20m, to allow greater scope to deposit with the Government should the need arise. Under local authority statutory investment guidance such "lending limits" are set by Council as part of the Treasury Strategy and Investment policy. Amendments also have to be approved by Council.

- Invest more frequently with UK owned banks or those that have otherwise been guaranteed (such as the Irish Banks) where we think investments are more likely to be sounder or where the threat of administration or receivership is far lower.

As well as this we will continue to maintain our practice of limiting the amounts we have invested in a single institution at any one time.

Inevitably there will be an impact upon the rate of interest that we receive on these balances in the short term at least. These lower rates need to be seen as a trade-off against a perceived lower level of risk.

8.2 Interest Rates

The base rate started the year at 5.25% falling to 3% in early November 2008. The turmoil in the financial markets from September, and the ensuing concerns about the world economy have put significant downward pressure on the base rate. This ought to translate into lower short term market rates, but a feature of recent times has been a far weaker link between official and market rates. The level of short term market rates impacts on the Council in two ways: by altering the level of return on investments and also the cost of any day to day or cashflow borrowing.

During the first half year longer term rates for Public Works Loans Board (PWLB) averaged out at between 4.5% and 5.0%, with a low of 4.3% and high of 5.5%. Local authorities use long term borrowing, primarily via the PWLB fixed rate loans, to part finance their capital programmes.

8.3 Short Term (Temporary) Borrowing and Investments

During the first half of 2008/09 temporary borrowings amounted to £202m, with an average daily balance of £5.4m, incurring interest of £137,000 at approximately 5.1%.

Over the same period temporary fixed term investments amounted to £75m. In addition, significant use has been made of "call" or instant access accounts. The combined average daily balance of fixed term and call investments was £19.7m, generating interest income of £541,000 at approximately 5.5%.

8.4 Long Term (Capital) Borrowing

The net long term borrowing requirement for the 2008/09 capital programme is £11.2m, taking into account financing set out in Section 7.2 above, less amounts set aside to repay debt, including Minimum Revenue Provision. Long term borrowing of £8m was taken out with the PWLB in August at a rate of 4.42%, leaving a small remaining requirement of just over £3m. In the light of capital programme requirements any further long term borrowing will be timed with the aim of minimising the long term interest cost to the authority.

8.5 External (Fund Manager) Investments

In addition to managing investments by making direct deposits with banks and building societies, money is invested through a fund manager (Investec), who is able to use different types of investments, such as government gilts and certificates of deposits. By October approximately £17m was invested through fund managers, with £4.85m being disinvested in that month, in order to maintain the broad balance between direct and fund manager investments. The return on the fund for the year to date is 5.27% (5.77% in 2007/08), marginally lower than the industry average of 5.29% (5.79% in 2007/08), but lower than the 5.9% benchmark (a market or

"interbank" rate that is calculated as market rates change). It is anticipated that the level of returns will improve in the remainder of the year as these investments approach redemption.

8.6 Prudential Code and Indicators

The Local Government Act 2003 and associated CIPFA Prudential Code for Capital Finance set the framework for the new local government capital finance system. From 2004/05 authorities have been able to borrow whatever sums they see fit to support their capital programmes, subject to them being able to afford the revenue costs. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. These indicators are designed to ensure that borrowing entered into for capital purposes was affordable, sustainable and prudent. The purpose of the indicators is to support decision making and financial management, rather than illustrate comparative performance.

Indicator 38, the "ratio of financing costs to the net revenue stream", is higher than estimated when the budget was set (10.7% as against 10.5%). This shows the proportion of the budget requirement that is used to meet the cost of the authority's borrowing, and in the main it relates to the financing of capital expenditure. The increase over the start year estimate is primarily due to increased borrowing costs arising from the funding of the 2007/08 capital programme. The impact of this cost is included in the budget projections now being reported.

The indicators, together with the relevant figures as at 30th September 2008 are included in Appendix 6. This highlights that the City Council's activities are within the amounts set as Performance Indicators for 2008/09, other than financing costs as referred to above.

9. **Other specific implications**

| | Implications (See below) | No Implications |
|---|-------------------------------------|----------------------------|
| Best Value | | ✓ |
| Children and Young People | | ✓ |
| Climate Change & Sustainable Development | | ✓ |
| Comparable Benchmark Data | | ✓ |
| Corporate Parenting | | ✓ |
| Coventry Community Plan | | ✓ |
| Crime and Disorder | | ✓ |
| Equal Opportunities | | ✓ |
| Finance | ✓ | |
| Health and Safety | | ✓ |
| Human Resources | | ✓ |
| Human Rights Act | | ✓ |
| Impact on Partner Organisations | | ✓ |
| Information and Communications Technology | | ✓ |
| Legal Implications | ✓ | |

| | Implications (See below) | No Implications |
|---|-------------------------------------|----------------------------|
| Neighbourhood Management | | ✓ |
| Property Implications | | ✓ |
| Race Equality Scheme | | ✓ |
| Risk Management | | ✓ |
| Trade Union Consultation | | ✓ |
| Voluntary Sector – The Coventry Compact | | ✓ |

| | Yes | No |
|-------------------------------|--|-----------|
| Key Decision | | ✓ |
| Scrutiny Consideration | Scrutiny Board 1 (Audit Sub-Group) 07/01/09 | |
| Council Consideration | ✓ | |

List of background papers

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Papers open to Public Inspection

| | |
|---------------------------------|----------|
| Description of paper | Location |
| Budgetary Control 2008/09 File | CRH/3 |
| Capital Monitoring 2008/09 File | CRH/3 |

Chief Executives Directorate

| Key Variances | | £m |
|----------------------------|-------------------------------------|--------------|
| Underspend | All Service Areas (less than £100k) | (0.3) |
| Forecast Underspend | | (0.3) |

Period 3 Forecast Underspend £0.1m.

City Development Directorate

| Key Variances | | £m |
|---------------------------|---------------------------------------|------------|
| Overspend | Building & Consultancy Services | 0.6 |
| | Building Control | 0.2 |
| | Car Parks | 0.1 |
| | Property Management | 0.1 |
| | Other Service Areas (less than £100k) | 0.1 |
| Forecast Overspend | | 1.1 |

Period 3 Forecast Overspend £1.4m

Building & Consultancy Services

An estimated overspend of £0.7m is offset by **Management Action** of **£0.1m**. This overspend is primarily due to a decline in trading income. Further Management action is being commissioned to review overheads, work volumes and pricing levels in Building Services.

Building Control

There has been a predicted 20% fall in applications and non-achievement of additional income targets set for Home Information Packs. Investigations are to be undertaken to review: 1) the extent that City Council building control work that currently goes to the private sector (e.g. Building Schools for the future) can be carried out in-house; 2) work currently provided without charge to internal customers (e.g. adaptations for the disabled); 3) the current accommodation arrangements with regards to savings that could be made. These actions do not have a projected financial saving attached to them at present.

Car Parks

A predicted income shortfall of £0.1m is due to an estimated reduction in usage and a reduction in non-fee income.

Property Management

A delay in achievement of NNDR review savings

Commercial Property

An overspend of £0.2m is expected due to changes in rules on Business Rates and City-wide BID levies on void properties. This is offset by an underspend of £0.2m due to an estimated over-recovery of rental income.

City Services Directorate

| Key Variances | | £m |
|---------------------------|------------------------|------------|
| Overspends | Highways & Lighting | 0.5 |
| | Catering | 0.3 |
| | Waste Services | 0.1 |
| | Waste Disposal Account | 0.1 |
| Forecast Overspend | | 1.0 |

Period 3 Forecast Overspend £0.8m

Directorate Pressures

The impact of global economic fuel prices represents £0.6m of the above variations.

Highways and Lighting

Budget pressures relating to rising Energy Costs for Street Lighting is resulting in a predicted overspend of £0.5m. There is also a budget pressures of £0.5m relating to income targets and the need to earn income to support the Highways service – particularly the Revenue Interface Team and Skip Licensing. **Management Action of £0.3m** is planned in the form of proactive management of the Revenue and Capital programmes to seek to meet these pressures within the existing bottom line. Prioritisation procedures are being used to target resources and provide the maximum service levels possible within the resources available to minimise the impact on service delivery. These pressures have also been offset by other variations within Highways and Lighting of £0.2m.

Catering

Whilst the historic heavy decline in Education Catering meal numbers has started to plateau, considerable growth in numbers is required to return the position to a balanced budget. The most significant issue is a net shortfall of £0.4m (income under recovery £0.6m offset by associated provision costs £0.2m).

Waste Disposal Joint Account

This is a prior year adjustment arising from the closure of the 2007/08 accounts.

Waste Services

An overspend of £0.1m due to fuel price inflation.

Children Learning and Young People's Directorate

| Key Variances | | £m |
|---------------------------|---|------------|
| Overspends | Home to School Transport | 0.3 |
| | LAC Transport | 0.3 |
| | Foster Carers' Maintenance | 0.2 |
| | Youth Service | 0.2 |
| | Community Childcare | 0.2 |
| | Children's Disability Team | 0.2 |
| | Legal Services | 0.2 |
| | Specialist Fostering | 0.1 |
| | Premature Retirement/Management of Change | 0.1 |
| | Residential Family Assessments | 0.1 |
| | Wistaria Lodge | 0.1 |
| Underspends | Early Years Peripatetic Workers | (0.2) |
| | Early Years Service | (0.1) |
| | Independent Sector Placements | (0.1) |
| | Other Services Areas (less than £0.1m) | (0.3) |
| Forecast Overspend | | 1.3 |

Period 3 Forecast Overspend £1.0m

Home to School Transport

Current forecast overspend of £0.5m based on last year's activity. **Management Action of £0.2m.** The management action has been reduced as this is no longer felt to be achievable as progress on this issue is proving to be difficult. Current policy on provision of transport is being considered as part of the above review.

Looked After Children Transport

Current forecast overspend of £0.6m. **Management Action of £0.3m.** The management action has been reduced as this is no longer felt to be achievable as progress on this issue is proving to be difficult. The forecasting process has been agreed with Care Managers and waiting agreement to the process from City Services. ISMs are reviewing current practice to see if savings can be achieved. The current policy on transport provision is being considered as part of the review.

Foster Carers' Maintenance

Predicted overspend of £0.3m is due to an increase in the number of foster placements. This forecast overspend has been reduced as a result of **Management Action of £0.1m**. It is expected that the increased use of foster carers should result in savings in the placements budget with the service impact being a greater number of Looked After Children being placed with foster carers rather than in residential care.

Youth Service

PPR saving for 2008/09 to be applied following outcome of PWC review which is likely to be later in the financial year so the saving won't be achieved till 2009/10.

Community Childcare

Cost of hardship payments to families in order to try and prevent children becoming Looked After which would be more costly.

Children's Disability Team

Continuing high cost of support packages and currently running at one member of staff over the newly agreed establishment – action is being taken to move elsewhere.

Legal Services

Increase in cost of legal services as a result of changes in Public Law Outline requirements. This budget received £0.1m from PPR for 2008/09. Review work is under way to understand the financial impact of the change.

Specialist Fostering

Additional fees being paid to this group of foster carers plus increase in numbers of children with complex needs being placed with foster carers rather than in more expensive residential placements.

Premature Retirement/Management of Change

An overspend on premature retirement due to ongoing costs and superannuation costs plus two unexpected tribunal claims plus new redundancy costs.

Independent Sector Placements

Forecast based on current level of Out of City residential placements, but this is an area difficult to forecast accurately and is dependent of the numbers of children becoming looked after.

Community Services Directorate

| Key Variances | | £m |
|---------------------------|--|------------|
| Overspends | Older People Community Purchasing | 1.1 |
| | Coventry Heritage & Arts Trust | 0.3 |
| | Learning Disability Community Purchasing | 0.2 |
| | Learning Disability Provider Services | 0.1 |
| | Mental Health Community Purchasing | 0.1 |
| | Coventry Sports Trust | 0.1 |
| | Information Systems | 0.1 |
| Underspends | Older People (Salaries) | (0.7) |
| | Other Service Areas (less than £0.1m) | (0.3) |
| Forecast Overspend | | 1.0 |

Period 3 Forecast Overspend £1.2m

Older People Community Purchasing

Impact of NHFO capacity is causing an overspend of £1.6m offset by a range of **Management Actions** of **£0.5m**.

Coventry Heritage and Arts Trust

The forecast overspend of £0.3m is due to two additional grants and set up costs to Coventry Heritage and Arts Trust to enable the transfer to Trust status.

Learning Disability Community Purchasing

The forecast overspend £ 0.2m is a combination of additional costs from new packages, and a reduction in PCT income from jointly provided services. Managers will continue to review financial pressures in this area for 2008/09 and beyond, and negotiations with the PCT continue to reclaim continuing care funding.

Learning Disability Provider Services

This overspend of £0.1m is due to 1) staffing costs, overtime, bank and casual staff and some agency to meet statutory responsibilities for registered care, 2) loss of income following changes in housing management arrangements. This in-house provider service is subject to an internal review, focusing on property management and service shape

Mental Health Community Purchasing

The forecast overspend of £0.1m is due to the ongoing impact of long term placements. It was predicted last year and is largely the cumulative effect of such placements. The commissioning capacity to have a significant impact on the market does not yet exist. We

are planning to appoint a new post using Mental Health Grant funding to better review existing placements and more proactively engage with providers removing to more outcomes focussed provision where possible.

Coventry Sports Trust

Estimated overspend £0.1m against grant following tender including costs of consultants.

Information Systems

Unexpected charge relating to Surfaces – backdated 3 years

Older People Salaries

Underspend of (£0.7m) on salaries due to vacant posts and the effect of a re-design of structures within the service.

Customer and Workforce Services Directorate

| Key Variances | | £m |
|---------------------------|---------------------------------|------------|
| Overspends | Car Park Passes Review | 0.1 |
| | Revenue Support of WAN2 Project | 0.1 |
| Forecast Overspend | | 0.2 |

Period 3 Forecast Overspend £0.1m

Car Park Passes Review

Non-achievement of savings target

Revenue Support of WAN2 Project

Budget for ongoing support is not available

Finance and Legal Services Directorate

| Key Variances | | £m |
|----------------------------|---|--------------|
| Overspends | Local Tax | 0.2 |
| | Legal Services | 0.2 |
| Underspends | Financial Management (salary underspends) | (0.3) |
| | Legal Services (salary underspends) | (0.1) |
| | Internal Audit | (0.1) |
| Forecast Underspend | | (0.1) |

Period 3 Forecast Nil Variance

Local Tax

An overspend of £0.2m is due to the under recovery of court costs and is offset by salary and running costs underspends

Legal Services

An under recovery of income within Legal Services is expected amounting to £0.1m net of related cost reduction. This relates to projected under recovery of land charges income and legal services costs due to a downturn in the housing market and likely impact of future legislation changes.

Financial Management

This underspend is due to salary savings on vacant posts. A restructure is pending in Community Services Finance.

Internal Audit

Salaries underspend due to recruitment difficulties, restructure pending

Contingency and Central Budgets

| Key Variances | | £m |
|---------------------------|---------------------------------------|------------|
| Overspends | Asset Management Revenue Account | 0.3 |
| | Promoting Health at Work | 0.1 |
| | Other Service Areas (less than £100k) | 0.2 |
| Forecast Overspend | | 0.6 |

Period 3 Forecast Overspend £0.6m

Asset Management Revenue Account

Increased 2007/08 capital spend being resourced from Prudential Borrowing. £0.1m increased MRP and up to £0.2m interest.

Promoting Health at work

Funding for new posts relating to an increase in promoting health at work meetings initiated by the new sickness triggers and the attendance of HR officers at these meetings.

Other Service Areas (less than £0.1m)

There are overspends totalling £0.2m that are individually under £0.1m across a range of areas.

Capital Programme: Analysis Of Budget / Technical Changes

| Scheme | Explanation | £m |
|--|--|------------|
| <u>Children, Learning & Young People</u> | | |
| Playbuilder Programme | External grant monies to fund the refurbishment / development of 6 play areas in 2008/09 (Cabinet 29 July 2008). | 0.3 |
| Total – Children, Learning & Young People | | 0.3 |
| <u>City Development</u> | | |
| Primelines | Realigns the budget consistent with spending. | 1.6 |
| Walsgrave Road & Tile Hill Lane | Additional Centro grant contributions to fund works on these two roads (Cabinet 30/3/2004). | 0.6 |
| Asset Management Database | Transfer to Customer & Workforce Services | -0.1 |
| Miscellaneous | Net Programme Addition | 0.1 |
| Total – City Development | | 2.2 |
| <u>Community Services</u> | | |
| Library Service PCs | 300 public and library counter PCs have been leased (CWG Aug 08) | 0.1 |
| Total - Community Services | | 0.1 |
| <u>Customer & Workforce Services</u> | | |
| Asset Management Database | Transfer from City Development | 0.1 |
| Total – Customer & Workforce Services | | 0.1 |
| Total Programme Changes | | 2.7 |

Capital Programme: Quarter 2 Estimated Outturn 2008/09 – Analysis By Directorate

The table below presents the estimated outturn in directorate format.

| | Quarter 1 Estimated Outturn £m | Approved / Technical Changes £m | Over/Under Spend Now Reported £m | Rescheduled Expenditure Now Reported £m | Revised Estimated Outturn 08/09 £m |
|-----------------------------------|---|--|---|--|---|
| Directorate | | | | | |
| Chief Executive | 0.1 | 0 | 0 | 0 | 0.1 |
| Children, Learning & Young People | 25.5 | 0.3 | -0.1 | -1.4 | 24.3 |
| City Development | 24.5 | 2.2 | 0.4 | -0.4 | 26.7 |
| City Services | 16.9 | 0 | 0 | 0 | 16.9 |
| Community Services | 13.5 | 0.1 | -0.3 | -0.9 | 12.4 |
| Customer & Workforce Services | 10.1 | 0.1 | 0 | -3.4 | 6.8 |
| Finance & Legal Services | 0.1 | 0 | 0 | 0 | 0.1 |
| Total | 90.7 | 2.7 | 0 | -6.1 | 87.3 |

| <u>Children, Learning & Young People</u> | | |
|---|---|-------------|
| Capital Grant (DCSF) | Contingency not required in 08/09 and reflects re-prioritisation to ensure delivery of the programme next year. | -1.0 |
| Childrens Centres | Detailed work has been undertaken to ensure enhanced quality. This has created delays in implementation. | -0.4 |
| Pathways to Care | Urgent relocation of family following adoption. | 0.1 |
| Miscellaneous | Net Rescheduling | -0.1 |
| Total - Children, Learning & Young People | | -1.4 |
| <u>City Development</u> | | |
| Barracks Car Park | Managed rescheduling, reducing corporately funded spend in 08/09. | -0.3 |
| NE Regeneration & Riley Square (NDC Project Management) | Projects have slowed due to the current housing climate. Minimal spend is expected this year which will fund committed work to date. | -0.1 |
| Total - City Development | | -0.4 |
| <u>Community Services</u> | | |
| Allesley Park Library | The developer is still awaiting financial closure with the PCT. Until this is finalised the developer is unable to sign the lease or to commit with the contractor. | -0.5 |
| Sports Centre Repairs | The new Landlord Tenant agreement will alter the City Council's obligations towards repairs and maintenance. The opportunity has therefore arisen to reschedule works into 2009/10, therefore reducing corporately funded spend in 08/09. | -0.3 |
| Play Areas | Managed rescheduling, reducing corporately funded spend in 08/09. | -0.1 |
| Total – Community Services | | -0.9 |
| <u>Customer & Workforce Services</u> | | |
| Wide Area Network | Due to delays in some aspects of the civil works linked to the road surface type (although spending projections are significantly reduced this year, an overspend of approx £1m is anticipated in 09/10). | -1.9 |
| Strategic ICT | Managed rescheduling, reducing corporately funded spend in 08/09. | -0.8 |
| Connecting Care | Further rescheduling, the majority of which relates to implementation of the "Adults" element of the system. | -0.5 |
| Microsoft Enterprise Agreement / Server Upgrade | Resources have been rescheduled in line with payment requirements. There is no delay on the actual project. | -0.2 |
| Total – Customer & Workforce Services | | -3.4 |
| Total Rescheduling Quarter 2 | | -6.1 |

Capital Programme: Analysis of Overspends

| Scheme | Explanation | £m |
|--|---|-------------|
| <u>Children, Learning & Young People</u> | | |
| Aldermoor Farm | Shared savings on the partnering contract for which the construction packages have now been agreed below the target cost. | -0.1 |
| Total - Children, Learning & Young People | | -0.1 |
| <u>City Development</u> | | |
| Primelines | Management action is being taken (and will continue) to identify resources to fund the currently unfunded element of the Primelines programme. | 0.5 |
| Miscellaneous | Net Underspend | -0.1 |
| Total – City Development | | 0.4 |
| <u>Community Services</u> | | |
| Social Housing Regeneration Fund | The SHRF programme has been cut to make available corporate resources that can be utilised to fund spending elsewhere in the capital programme. | -0.3 |
| Total – Community Services | | -0.3 |
| Total Underspend | | 0 |

| Indicator | Set as Part of Treasury Management Strategy | As at 30 th September 2008 |
|---|--|--|
| <p>Ratio of Financing Costs to Net Revenue Stream (Ref 38), illustrating the affordability of costs such as interest charges to the overall City Council bottom line resource (the amount to be met from government grant and local taxpayers).</p> | 10.50% | 10.70% |
| <p>Net Borrowing should not, except in the short term, exceed the estimated Capital Financing Requirement (CFR) at the end of 3 years (Ref 45), illustrating that, over the medium term, net borrowing (borrowing less investments) will only be for capital purposes. The CFR is defined as the Council's underlying need to borrow, after taking account of other resources available to fund the capital programme.</p> | Year 3 estimate/limit of £371.2m | £282.6m net borrowing within the limit. |
| <p>Authorised Limit for External Debt (Ref 59), representing the "outer" boundary of the local authority's borrowing. Borrowing at the level of the authorised limit might be affordable in the short term, but would not be in the longer term. It is the forecast maximum borrowing need with some headroom for unexpected movements. This is a statutory limit.</p> | £383.1m | £312.4m is less than the authorised limit. |
| <p>Operational Boundary for External Debt (Ref 60), representing an "early" warning system that the Authorised Limit is being approached. It is not in itself a limit, and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.</p> | £343.6m | £312.4m is less than the operational boundary. |
| <p>Upper Limit on Fixed Rate Interest Rate Exposures (Ref 67 – 73), highlighting interest rate exposure risk. The purpose of this indicator is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.</p> | 110% | 94% |
| <p>Upper Limit on Variable Rate Interest Rate Exposures (Ref 67 – 73), as above highlighting interest rate exposure risk.</p> | 30% | 6% |
| <p>Maturity Structure Limits (Ref 74), highlighting the risk arising from the requirement to refinance debt as loans mature:</p> <p style="text-align: center;"> < 12 months 12 months – 24 months 24 months – 5 years 5 years – 10 years 10 years + </p> | <p style="text-align: center;"> 0% to 15% 0% to 10% 0% to 20% 0% to 30% 40% to 100% </p> | <p style="text-align: center;"> 0% 0% 3% 3% 94% </p> |
| <p>Investments Longer than 364 Days (Ref 77), highlighting the risk that the authority faces from having investments tied up for this duration.</p> | £20m | £0.3m |