



### **Audit and Procurement Committee**

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**Time and Date:** 4.00 pm on Monday, 6th January, 2014

**Place:** Diamond Room 2, Council House

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1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of Previous Meeting** (Pages 3 - 6)  
To confirm the minutes of the meeting of the Audit and Procurement Committee held on Monday 18 November 2013.
4. **Outstanding Issues and Work Programme 2013/14** (Pages 7 - 12)  
Report of the Executive Director, Resources.

#### **AUDIT BUSINESS**

5. **Revenue Monitoring report and Corporate Capital Monitoring Q2 2013-14** (Pages 13 - 32)  
Report of the Executive Director, Resources.
6. **Treasury Management Update** (Pages 33 - 36)  
Report of the Executive Director, Resources.
7. **Any Other Business**

#### **PROCUREMENT BUSINESS**

8. **JEEP (Justify Expenditure Explain Performance) Update**  
Verbal update from the Executive Director, Resources.

#### **Private Report**

9. **Monthly Procurement Progress Report** (Pages 37 - 40)  
Report of the Executive Director, Resources.
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Chris West, Executive Director, Resources, Council House Coventry

Tuesday, 24 December 2013

Note: The person to contact about the agenda and documents for this meeting is Hugh Peacocke

Membership: Councillors S Bains (Deputy Chair), L Harvard, R Sandy, T Sawdon, B Singh and H Sweet (Chair)

By invitation Councillors

Please note: a hearing loop is available in the committee rooms

If you require a British Sign Language interpreter for this meeting OR if you would like this information in another format or language please contact us.

**Hugh Peacocke**

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# Agenda Item 3

## Coventry City Council

### Minutes of the Meeting of The Audit and Procurement Committee held at 4.00 pm on 18 November 2013.

#### **Present:**

Members: Councillor H Sweet (Chair)  
Other Members: S Bains (Deputy Chair), L Harvard, T Sawdon, R Sandy  
B Singh

Employees (by Directorate) S Brake, B Hastie, P Jennings, H Lynch, S Mangan,  
K Malone, H Peacocke and L Welton.

**Apologies:** None.

#### **Public Business**

##### **66. Declarations of Interest**

There were no declarations

##### **67. Minutes of Previous Meeting**

The Committee approved the minutes of the meeting held on 21 October and the Chair signed them as a true record.

##### **68. Outstanding Issues and Work Programme 2013/14**

The Committee considered the report of the Executive Director, Resources, setting out the outstanding issues for the Audit and Procurement Committee and the Committee's Work Programme for the rest of the Municipal Year.

The following items were noted:

- add JEEP (Justify Expenditure Explain Performance) update to the January agenda
- The Grant certification letter is on the February agenda
- "Corporate Risk Register Update – Safeguarding Awareness" and "Council Tax Exemptions and Discounts" on the January agenda.

**RESOLVED that the outstanding issues and The Work Programme (2013-14), as amended, be agreed by the Committee.**

##### **69. Annual Audit Letter for year ended 31 March 2013.**

Mr Tony Parkes, of Grant Thornton (The Council's external auditors), presented the Annual Audit Letter for financial year ended 31 March 2013.

The audit conclusions which provided in relation to 2012/13 were as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The auditors told the Committee that the statement of accounts was not yet finalised, pending the investigation of an outstanding objection, regarding the charge for a dropped kerb, which could take a few more weeks to resolve.

The letter highlighted 4 issues:

1. The challenging financial future facing the Council,
2. The impact of savings on the Children, Learning and Young Peoples Directorate
3. The introduction of the Council's new financial system, Agresso, from 2 December, and
4. The need for the Council to satisfy itself on the financial status of Arena Coventry Limited

**RESOLVED that the Coventry City Council Annual Audit Letter 2012/13 be agreed.**

70. **Half Yearly Fraud Update 2013-14**

The Audit and Procurement Committee received from the Executive Director, Resources a summary of the Council's anti-fraud activity for the first half of the financial year 2013-14, focusing primarily on corporate and benefit fraud.

The Internal Auditor drew the Committee's attention to the following matters in the report:

- The National Fraud Initiative had identified £213,000 of overpayments/errors, mainly housing benefit (paragraph 2.1.1)
- The uncertainty arising from the government's proposal to merge local authority benefit fraud teams with their counterparts based in the DWP and HMRC, in order to create the Single Fraud Investigation Service (paragraph 2.2.1)
- The details regarding significant fraud (financial impact in excess of £10,000) as set out in appendix 1.

**RESOLVED that the Audit and Procurement Committee endorses the Fraud Update for the first half of 2013-14.**

71. **Covert Surveillance of Employees Policy and Procedure**

The Committee considered the report of the Executive Director, Resources, which provided an overview of the proposed procedure for submitting and authorising applications for the covert surveillance of employees.

**RESOLVED that the Audit and Procurement Committee endorse the content of the report and recommend approval of the Covert Surveillance of Employees Policy and Procedure.**

72. **JEEP (Justify Expenditure, Explain Performance) Update**

The Assistant Director for ICT provided the Committee with responses from ICT Services to staff suggestions made under the JEEP campaign.

**RESOLVED that the Audit and Procurement Committee notes the responses to ICT suggestions under the JEEP campaign.**

73. **Any other business**

It was agreed that future agendas should clearly distinguish between “Audit” items and “procurement” items.

74. **Procurement Progress Report**

The Committee received a Briefing Note from the Executive Director, Resources on procurement matters. It was noted that the procurements savings to date were on target to achieve £2M. It was noted that the fostering framework was being retendered in a way that will reduce cost of placements although there is currently a significant increase in demand. The Council was also retendering its Support for adults with learning difficulties.

It was agreed that as the meeting in December had been cancelled that the monthly report would be emailed to Committee Members.

**RESOLVED that the Audit and Procurement Committee notes the November monthly progress report on procurement.**

75. **Arena Coventry Limited Update**

The Committee received in private, a verbal update on the issues facing the Council arising from its financial restructuring of ACL. The issues included financial and reputational matters and the Committee noted that the Council’s ACL Shareholders’ Panel met on a regular basis to address these.

The Committee requested a further update in 6 months.

**RESOLVED that the Audit and Procurement Committee note the update on Arena Coventry Limited.**

(Meeting closed at 5.00 pm)

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## Public Report

**Audit and Procurement Committee**

**6 January 2014**

**Director Approving Submission of the report:**

Executive Director, Resources.

**Ward(s) affected:**

None

**Title:**

Work Programme 2013/14 and Outstanding Issues at 6 January 2014

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**Is this a key decision?**

No

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**Executive Summary:**

This report sets out the Outstanding issues for the Audit and Procurement Committee and the Committee's Work Programme for the rest of the Municipal Year.

**Recommendations:**

That the Audit and Procurement Committee notes the outstanding issues and approves the Committee's Work Programme.

**List of Appendices included**

1. Outstanding issues for the Audit and Procurement Committee at 6 January 2014
2. Work Programme 2013/14 for the Audit and Procurement Committee

**Other useful background papers:**

Audit Committee Minutes

**Has it or will it be considered by Scrutiny?**

No

**Has it, or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

No

**Report author(s):** Hugh Peacocke

**Name and job title:** Governance Services Manager

**Directorate:** Resources

**Tel and email contact:** 024 7683 3080, hugh.peacocke@coventry.gov.uk

Enquiries should be directed to the above person.

| <b>Contributor/approver name</b>                     | <b>Title</b> | <b>Directorate or organisation</b> | <b>Date doc sent out</b> | <b>Date response received or approved</b> |
|------------------------------------------------------|--------------|------------------------------------|--------------------------|-------------------------------------------|
| <b>Contributors:</b>                                 |              |                                    |                          |                                           |
|                                                      |              |                                    |                          |                                           |
| <b>Names of approvers:</b><br>(officers and members) |              |                                    |                          |                                           |
|                                                      |              |                                    |                          |                                           |

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Outstanding Issues for Audit and Procurement Committee December 2013

|   | <b>Subject</b>                                                                                                                                                                                                                                                                        | <b>Date</b>   | <b>Responsible Officer(s)</b> |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------------------|
| 1 | <p><b>Corporate Risk Register Update – Safeguarding Awareness</b></p> <p>The Committee requested an update report on the current position in respect of the safeguarding Awareness, in light of concerns on lack of progress.</p> <p>(Minute 59/12 of the Audit Committee refers)</p> | January 2014  | Steve Mangan                  |
| 2 | <p><b>Council Tax Exemptions and Discounts</b></p> <p>The Committee requested internal audit to continue to review this matter and report back in January 2014, prior to the next billing year, from March 2014.</p> <p>(Minute 27/13 refers)</p>                                     | January 2014  | Janice Evans / Steve Mangan   |
| 3 | 2012-13 Audit Grant Certification letter                                                                                                                                                                                                                                              | February 2014 | External Auditors             |

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Coventry City Council  
Audit and Procurement Committee Workplan 2013-14

| Stakeholder                     | Report                                                                                            | 03/06/13 | 08/07/13 | 05/08/13 | 19/08/13 | 23/09/13 | 21/10/13 | 18/11/13 | 06/01/14 | 03/02/14 | 03/03/14 | 07/04/13 | 12/05/14 |
|---------------------------------|---------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Internal Audit                  | Internal Audit Annual Report 2012-13                                                              |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Quarterly Internal Audit Progress Reports 2013-14                                                 |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Internal Audit Recommendation Tracking Report                                                     |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Annual Audit Plan 2014-15                                                                         |          |          |          |          |          |          |          |          |          |          |          |          |
| Risk Management                 | Corporate Risk Register Update                                                                    |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Corporate Risk - Nuclele Update                                                                   |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Corporate Risk - Safeguarding Awareness Update                                                    |          |          |          |          |          |          |          |          |          |          |          |          |
| Fraud                           | Fraud Annual Report 2012-13                                                                       |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Half Yearly Fraud Update 2013-14                                                                  |          |          |          |          |          |          |          |          |          |          |          |          |
| External Audit (Grant Thornton) | Informing the Audit Risk Assessment                                                               |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Annual Governance Report                                                                          |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Annual Audit Letter                                                                               |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Grant Certification Work                                                                          |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Annual Audit Plan                                                                                 |          |          |          |          |          |          |          |          |          |          |          |          |
| Accountancy                     | Statement of Accounts 2012-13                                                                     |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Revenue and Capital Out-Turn 2012-13                                                              |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Revenue Monitoring Report and Corporate Capital Monitoring and Treasury Management Report 2012-13 |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Annual Audit Letter Update                                                                        |          |          |          |          |          |          |          |          |          |          |          |          |
| Procurement                     | Transformation Programme Financial Savings                                                        |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Progress Report                                                                                   |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Post and Fastprint                                                                                |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | JEEP Update                                                                                       |          |          |          |          |          |          |          |          |          |          |          |          |
| Others                          | Annual Governance Statement 2012-13                                                               |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Review of the Effectiveness of the System of Internal Audit 2012-13                               |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Annual Audit Committee Report 2012-13                                                             |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Council Tax Discounts / Exemptions Update                                                         |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | RIPA Annual Report                                                                                |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Covert Monitoring of Employees Policy Statement                                                   |          |          |          |          |          |          |          |          |          |          |          |          |
|                                 | Arena Coventry Limited Update                                                                     |          |          |          |          |          |          |          |          |          |          |          |          |
| Training                        |                                                                                                   |          |          |          |          |          |          |          |          |          |          |          |          |

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## Public report Cabinet Report

Cabinet  
Audit and Procurement Committee

10th December 2013  
6<sup>th</sup> January 2014

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance & Resources) – Councillor Gannon

**Director approving submission of the report:**

Executive Director, Resources

**Ward(s) affected:**

City Wide

**Title:**

2013/14 Second Quarter Revenue and Capital Monitoring and Treasury Management Report (to September 2013)

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**Is this a key decision?**

No

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**Executive summary:**

The purpose of this report is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity in the second quarter of 2013/14.

The current forecast for 2013/14 is a revenue overspend of £1.5m subject to approval of the reserve contribution outlined in recommendation 1 below. This compares to a forecast of £4m at the first quarter. The reported overspend at the same point in 2012/13 was £1.3m. The report outlines the actions planned to bring the 2013/14 position into balance.

The Capital spending forecast as at the second quarter is projected to be £82m. This represents a net increase of £4.1m compared to the £77.9m reported at the first quarter. This increase in the capital programme comprises £3.6m rescheduling of expenditure into 2014/15, £7.8m new spending approvals, and a small underspend of £0.1m. Spending at this revised level will be met by resources identified previously.

**Recommendations:**

Cabinet is recommended to:

1. Approve a reserve contribution of £0.8m to fund one-off expenditure relating to temporary additional staffing within Children's Social Care within the People Directorate.
2. Note the projected revenue overspend and endorse the proposed actions to balance the budgetary position by year-end.

- 3.** Approve the revised capital estimated outturn position for the year of £82m incorporating:
- (i) £7.8m increase in spending relating to approved/technical changes, (see Appendix 2),
  - (ii) £3.6m net rescheduling of expenditure into 2014/15, (see Appendix 4).
  - (iii) £0.1m net underspending on the programme.

Audit and Procurement Committee is recommended to:

- 4.** Note the contents of the report.

**List of Appendices included:**

|            |                                                                               |
|------------|-------------------------------------------------------------------------------|
| Appendix 1 | Revenue Position: Detailed Directorate breakdown of forecast outturn position |
| Appendix 2 | Capital Programme: Analysis of Approved Budget/Technical Changes              |
| Appendix 3 | Capital Programme: Period 6 Estimated Outturn 2013/14                         |
| Appendix 4 | Capital Programme: Analysis of Rescheduling                                   |
| Appendix 5 | Prudential Indicators                                                         |

**Background Papers**

None

**Other useful documents:**

Budgetary Control 2013/14 File, location CRH 3

**Has it or will it be considered by scrutiny?**

No

**Has it, or will it be considered by any other council committee, advisory panel or other body?**

Yes - Audit and Procurement Committee 6<sup>th</sup> January 2014

**Will this report go to Council?**

No

**Report Title:**

2013/14 Second Quarter Revenue and Capital Monitoring and Treasury Management Report (to September 2013)

**1. Context (or Background)**

- 1.1 Cabinet approved the City Council's revenue budget of £267.9m on the 26th February 2013 and a capital programme of £63.8m. This is the second quarterly monitoring report for 2013/14.
- 1.2 The purpose of this report is to advise Cabinet of the second quarter forecast outturn position for revenue and capital expenditure and to report on the Council's treasury management activity in the second quarter of 2013/14.
- 1.3 The current forecast for 2013/14 is a revenue overspend of £1.5m. This compares to a forecast of £4m in at the first quarter. The reported overspend at the same point in 2012/13 was £1.3m. The report outlines the actions planned to bring the 2013/14 position into balance.
- 1.4 The headline reasons for the movement since quarter 1 are a £1.2m improvement in the forecast for the Asset Management Revenue Account within Contingency and Central Budgets and improved forecasts across a range of areas within the People Directorate amounting to £0.9m. However, the overall bottom line reflects additional time-limited support for one-off Children's Social Care costs within the People Directorate amounting to £0.8m. This report is recommending a proposed £0.8m contribution to fund these costs funded from the Council's reserve set aside to pay for Early Retirement/Voluntary Redundancy related expenditure.
- 1.5 Capital spend is projected to be £82m, an increase of £4.1m since the Quarter 1 report in September. This is due in large part to new member approvals / technical changes that have arisen since September 2013 offset by expenditure rescheduled into 2014/15. This spend will all be met by resources identified previously.

**2. Options considered and recommended proposal****2.1 Revenue Forecast**

The Quarter 2 revenue budget monitoring exercise has identified an overall overspend of £1.5m. Table 1 below provides details of the forecast directorate variances.

**Table 1. Forecast Variations**

| <b>Directorate</b>            | <b>Revised Budget<br/>£m</b> | <b>Forecast Spend<br/>After Action/ Use<br/>of Reserves<br/>£m</b> | <b>Net Forecast<br/>Variation<br/>£m</b> |
|-------------------------------|------------------------------|--------------------------------------------------------------------|------------------------------------------|
| Chief Executives              | 4.3                          | 4.3                                                                | 0.0                                      |
| People                        | 163.2                        | 168.8                                                              | 5.6                                      |
| Place                         | 28.9                         | 30.0                                                               | 1.1                                      |
| Resources                     | 12.6                         | 12.8                                                               | 0.2                                      |
|                               | <b>209.0</b>                 | <b>215.9</b>                                                       | <b>6.9</b>                               |
| Contingency & Central Budgets | 59.4                         | 54.0                                                               | (5.4)                                    |
| <b>Total</b>                  | <b>268.4</b>                 | <b>269.9</b>                                                       | <b>1.5</b>                               |

The predicted directorate overspends are as a result of a combination of factors. There are some areas where ongoing levels of spend need to be brought under control, and others where income targets are under pressure due to the economic climate. Furthermore, there is also the effect of challenging savings targets, set within the Council's abc Programme, where the Directorate actions or Corporate strategy required to achieve some of these savings have yet to be identified. Determining the actions necessary to deliver these savings remains a key focus of senior management at this time.

## **2.2 Individual Directorate Comments for Revenue Forecasts**

A summary of the forecast year-end variances is provided below. Further details are shown in Appendix 1.

### **People - Overspend £5.6m**

The two most significant pressures across the Directorate continue to be Children's Social care and Community Purchasing within Adult Social Care. Increasing demand or activity levels at the same time as a decrease in funding is creating significant budgetary pressure across both these areas within the People Directorate.

The programme of change from the CLYP FSR has now been implemented including a restructured and refocused Early Intervention Service and restructured Family Placement Service, but the activity reduction identified will not be achieved in the short-term at least. This will result in the savings targets identified not being delivered, as the numbers of LAC and Child protection cases are much higher than when the assumptions were made at the commencement of the FSR and the increase in in-house fostering and adoption places has not been achieved. To reduce caseloads, additional staff are being recruited within Children's Social Care on a time limited basis, which increases the overspend by a further £0.8m. This is incorporated into the total over-spend figure shown above but it is proposed will be matched with a £0.8m contribution from corporate reserves referenced in Recommendation 1 and the Section in Contingency and Central Budgets below.

### **Contingency & Central Budgets – Underspend £5.4m**

The Asset Management Revenue Account reflects a significant underspend of £3.1m. This reflects an improvement of £1.2m compared with period 3 and is as a result of lower interest and debt repayment profiles and delays in incurring prudential borrowing within the Capital Programme incorporating a multi-year dimension. Other significant underspends relate to lower than anticipated calls on energy cost contingencies (£0.4m) and Pay and Inflation Contingencies (£1.6m) alongside the recommended contribution from reserves of £0.8m.

### **Place - Overspend £1.1m**

At quarter 2 the underlying Directorate position is a deficit of £1.5m. Management action is in progress which together with some largely one-off underspends, reduces the overall net forecast outturn to **£1.1m deficit**. The largest part of the over-spend relates to on-going rent and rates void costs of £0.6m within the commercial portfolio caused by the difficult economic climate and additional cost of £0.4m within refuse collection. The remaining pressures relate primarily to a shortfall of income against targets for commercial waste, car parking & parking enforcement.

### **Resources – Overspend £0.2m**

The combined Resources Directorate position is a net overspend of £0.2m. The largest budget overspend is £0.6m in the ICT service, which is a combination of temporary employee costs (covering difficult to recruit to vacant posts), one off pressures in contractual costs and a lower than expected income projection. These will be the subject of a more



detailed financial review of the ICT service during the next quarter. Further options to reduce the overall Directorate overspend will be explored prior to the next reporting period.

### 2.3 Capital Position 2013/14

Table 2 below updates the budget to take account of £7.8m new approved/technical changes that have arisen since Quarter 1, £3.6m net expenditure rescheduled into 2014/15 and a small underspend of £0.1m. This gives a revised projected level of expenditure for 2013/14 of £82m. Appendix 3 provides an analysis by directorate of the movement since Quarter 1.

The Resources Available section of Table 2 explains how the capital programme will be funded in 2013/14. It shows that almost half of the capital programme is funded by external grant monies (42%), whilst 37% is funded from borrowing. The latest projections of capital receipts, arising predominantly from the sale of our assets, show £7.4m capital receipts expected by year end against a target level of £5.9m.

Overall, the capital programme and associated resourcing reflects a forecast balanced position in 2013/14.

**Table 2. Movement in the Capital Budget**

|                                                       | £m          |
|-------------------------------------------------------|-------------|
| <b>Estimated Outturn Period 3</b>                     | <b>77.9</b> |
| Budget/Technical Changes (see Appendix 2)             | 7.8         |
| "Net" Underspending                                   | (0.1)       |
| "Net" Rescheduling into future years (see Appendix 4) | (3.6)       |
| <b>Revised Estimated Outturn 2013/14</b>              | <b>82.0</b> |
| <b>Resources Available:</b>                           |             |
| Unsupported (Prudential) Borrowing                    | 30.4        |
| Grants and Contributions                              | 34.8        |
| Capital Receipts                                      | 7.4         |
| Revenue Contributions                                 | 9.0         |
| Leasing                                               | 0.4         |
| <b>Total Resources Available</b>                      | <b>82.0</b> |

### 2.4 Treasury Management Activity in 2013/14

#### Interest Rates

Notwithstanding more positive messages recently about the state of the economy it is clear that there are no plans in the very near future to move from the current Bank Rate.

#### Long Term (Capital) Borrowing

The net long term borrowing requirement for the 2013/14 capital programme is £17.3m, taking into account borrowing set out in Section 2.3 above (total £30.4m), less amounts to be set aside to repay debt, including non PFI related Minimum Revenue Provision (£13.1m). No long term borrowing has been taken out to date in 2013/14 although it is anticipated that some temporary borrowing at least will be required before the year-end. The need to borrow will be kept under review in the light of a number of factors, including the anticipated level of capital spend, interest rate forecasts and the level of investment balances.

During 2013/14 interest rates for local authority borrowing from the Public Works Loans Board (PWLB) have varied within the following ranges:

| <b>PWLB Loan Duration</b> | <b>Minimum 2013/14 to P6</b> | <b>Maximum 2013/14 to P6</b> | <b>As at the End of P6</b> |
|---------------------------|------------------------------|------------------------------|----------------------------|
| 5 year                    | 1.70%                        | 2.80%                        | 2.52%                      |
| 50 year                   | 4.04%                        | 4.71%                        | 4.53%                      |

The PWLB now allows qualifying authorities, including the City Council, to borrow at 0.2% below the standard rates set out above. This “certainty rate” initiative provides a small, but welcome reduction in the cost of future borrowing. This trend is set to be extended with the planned introduction of a “project rate” which will enable authorities, working with their Local Enterprise Partnership (LEP), to access PWLB borrowing at 0.4% below the standard rate.

Regular monitoring continues to ensure identification of any opportunities to reschedule debt by early repayment of more expensive existing loans with less expensive new replacement loans. However, the current premiums payable on early redemption currently outweigh any potential savings.

### **Short Term (Temporary) Borrowing and Investments**

In managing the day to day cashflow of the authority short term borrowing or investments are undertaken with financial institutions and other public bodies. Up to Period 6, no temporary borrowing was undertaken, whilst short term investments were made at an average interest rate of 0.53%. This rate of return reflects low risk investments for short to medium durations with UK banks, Money Market Funds, Certificates of Deposits, other Local Authorities as well as with the Government through the Debt Management Office (DMO).

Although the level of investments varies from day to day with movements in the Council’s cash-flow, investments held by the City Council identified as a snap-shot at each of the reporting stages were: -

|                                   | <b>As at 30<sup>th</sup> June 2013<br/>£m</b> | <b>As at 30<sup>th</sup> Sept 2013<br/>£m</b> |
|-----------------------------------|-----------------------------------------------|-----------------------------------------------|
| Banks and Building Societies      | 53.8                                          | 54.7                                          |
| Money Market Funds                | 19.8                                          | 7.4                                           |
| Government Debt Management Office | 0                                             | 0                                             |
| Local Authorities                 | 28.0                                          | 13.0                                          |
| <b>Total</b>                      | <b>101.6</b>                                  | <b>75.1</b>                                   |

### **External Investments**

In addition to the above investments, a mix of Collective Investment Schemes or “pooled funds” is used, where investment is in the form of sterling fund units and not specific individual investments with financial institutions or organisations. These funds are generally AAA rated, are highly liquid, as cash can be withdrawn within two to four days, and short average duration of the intrinsic investments. The intrinsic Sterling investments include Certificates of Deposits, Commercial Paper, Corporate Bonds, Floating Rate Notes and Call Account Deposits. However, they are designed to be held for longer durations,

allowing any short term fluctuations in return to be smoothed out. In order to manage risk these investments are spread across a number of funds.

As at 30 September 2013 the pooled funds were valued at £23.3m (£23.2m as at 30<sup>th</sup> June 2013).

### **Prudential Indicators and the Prudential Code**

Under the CIPFA Prudential Code for Capital Finance authorities are free to borrow, 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.

The indicators, together with the relevant figures as at 30<sup>th</sup> September 2013 are included in Appendix 5. This highlights that the City Council's activities are within the amounts set as Performance Indicators for 2013/14. Specific points to note on the ratios are:

- The ratio of financing costs to net revenue stream (indicator 1) is 12.66% compared to 13.15% within the Treasury Management Strategy, due to lower levels of Prudential Borrowing resourced capital spend in 2012/13;
- The Upper Limit on Variable Interest Rate Exposures (indicator 10) sets a maximum amount of net borrowing (borrowing less investments) that can be at variable interest rates. The Period 6 value is -£11.0m (minus) compared to +£80.8m within the Treasury Management Strategy, reflecting the fact that the Council has more variable rate investments than variable rate borrowings at the current time.

### **3. Results of consultation undertaken**

#### **3.1 None**

### **4. Timetable for implementing this decision**

#### **4.1 There is no implementation timetable as this is a financial monitoring report.**

### **5. Comments from Executive Director, Resources**

#### **5.1 Revenue**

The current forecast for 2013/14 is a projected overspend of £1.5m.

The financial position facing the Council remains very challenging for 2013/14 with continued implementation of the cuts in formula and specific grants. In parallel with this the Council remains committed to the implementation locally of a number of very significant abc service reviews that are aimed at achieving large savings. Whilst it is important to reiterate that the 2013/14 budget is a robust one this report reflects that there are some areas with challenging budget pressures that need to be addressed.

In particular it is clear that problems remain in delivering the changes required to achieve savings through the Social Care and Early Intervention FSR, compounded by further funding changes in the Education & schools sector. In addition, the People Directorate is in the early

stages of delivering the very large savings required in its A Bolder Community Services FSR whilst at the same time managing the fall-out of several one-off sources of funding received in previous years. These financial issues together with smaller ones across other directorates have created the initial projected over-spend reported here.

Officer action continues to focus on delivery of FSR savings as a fundamental piece of business as usual. In addition it is expected that all other areas of budgetary overspend will be expected to explore options to move back towards budgetary balance. Finally, it is expected that hard to predict central budgets, in particular the Asset Management Revenue Account (AMRA) will be revisited regularly to refine year-end projections. The position at quarter 2 indicates that the AMRA position will improve by c£1.2m compared with the quarter 1 forecast, with further potential for the level of reported underspend to increase towards the year-end.

The recommended £0.8m reserve contribution will be funded by resources set aside to pay for Early Retirement/Voluntary Redundancy related expenditure. The ER/VR reserve stood at £6.3m at the end of 2012/13.

The Council has not yet called upon the £4m Business Rates contingency established to protect against unforeseen fluctuations caused by the part localisation of Business Rates. It is anticipated that close monitoring of this area will allow robust analysis of trends by the next reporting period to establish how much if any of this contingency will be unspent by year-end or set aside to protect against loss in future years.

## **5.2 Capital**

The capital programme shows a projected balanced position for 2013/14.

The overall level of prudential borrowing required in 2013/14 has increased by £3.6m (£26.8m at quarter 1). Of the £30.4m total borrowing now forecast, £24.5m relates to spending on specific schemes approved by Cabinet. This figure has increased by £6.6m since Quarter 1 as a result of the Coombe Abbey Park Hotel refinancing arrangement approved in September. The remaining £5.9m predominantly relates to borrowing that has previously been approved but not undertaken. Cabinet will recall that at the end of 2012/13 available external grant funding was used to fund spending which had been forecast to be funded from prudential borrowing.

The Executive Director Resources will review the overall level of prudential borrowing undertaken in 2013/14 together with other sources of funding as part of the year end process and continue to re-evaluate future capital spending profiles taking into account economic circumstances, the ability to generate capital receipts and the profile of other areas of significant investment managed by the Council.

## **5.3 Legal implications**

None

## **6. Other implications**

### **6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

The Council strives to monitor the quality and level of service provided to the citizens of Coventry and the key objectives of the Sustainable Community Strategy despite financial

pressures. As far as possible we will try to deliver better value for money in the services that we provide and achieving the same or better level of service with fewer resources.

## 6.2 How is risk being managed?

The need to deliver a stable and balanced financial position in the short and medium term is a key corporate risk for the local authority and is reflected in the corporate risk register. Budgetary control and monitoring processes are paramount to managing this risk and this report is a key part of the process.

## 6.3 What is the impact on the organisation?

In Quarter 2 there is a forecasted overspend. The Council is actively seeking further management actions to achieve a balanced budget by year-end.

## 6.4 Equalities / EIA

None

## 6.5 Implications for (or impact on) the environment

No impact

## 6.6 Implications for partner organisations?

None

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| Neil Chamberlain                                     | Finance Manager                                  | Resources                   | 14/11/13          | 18/11/13                           |
| Ewan Dewar                                           | Finance Manager                                  | Resources                   | 14/11/13          | 18/11/13                           |
| Phil Helm                                            | Finance Manager                                  | Resources                   | 14/11/13          | 18/11/13                           |
| Rachael Sugars                                       | Finance Manager                                  | Resources                   | 14/11/13          | 18/11/13                           |
| Michelle Salmon                                      | Governance Services Officer                      | Resources                   | 12/11/13          | 12/11/13                           |
| <b>Names of approvers:</b><br>(officers and members) |                                                  |                             |                   |                                    |
| Finance: Barry Hastie                                | Assistant Director, Resources                    | Resources                   | 12/11/13          | 12/11/13                           |
| Legal: Carol Bradford                                | Legal Officer                                    | Resources                   | 12/11/13          | 13/11/13                           |
| Exec Director: Chris West                            | Exec Director, Resources                         | Resources                   | 12/11/13          | 12/11/13                           |
| Members: Cllr Gannon                                 | Cabinet Member (Strategic Finance and Resources) |                             | 18/11/13          | 18/11/13                           |

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**Revenue Position: Detailed Directorate Breakdown of Forecasted Outturn Position**

Appendix 1 details directorates forecasted variances.

**Chief Executives Directorate**

| KEY VARIANCES                 | £m    |
|-------------------------------|-------|
| <b>Overspends:</b>            |       |
| Chief Exec's Overheads        | 0.1   |
| <b>Underspends:</b>           |       |
| Corporate Policy and Research | (0.1) |
| <b>Outturn Overspend</b>      | 0.0   |

**Overspend:**

Directorate Management of Vacancy &amp; Single Status targets

**Underspends:**

Salary underspends due to Maternity leave &amp; vacant posts during the year

There is a working assumption that the ring-fenced Public Health Grant will be fully utilised within the year or carried forward as an earmarked reserve.

**People Directorate**

| KEY VARIANCES                                 | £m    |
|-----------------------------------------------|-------|
| <b>Overspends:</b>                            |       |
| Community Purchasing                          | 3.4   |
| Childrens Placements                          | 2.7   |
| Additional Staffing Costs                     | 0.8   |
| Legal Fees                                    | 0.4   |
| Supported Accommodation                       | 0.4   |
| Neighbourhood Social Work Teams               | 0.3   |
| Fostering & Adoption                          | 0.2   |
| Education Service Grant (ESG)                 | 0.2   |
| Schools Catering Service                      | 0.2   |
| Looked after Children (Neighbourhoods)        | 0.1   |
| Section 17 Payments                           | 0.1   |
| Housing: Temporary Accommodation/Homelessness | 0.1   |
| ABCS Programme                                | 0.1   |
| <b>Underspends:</b>                           |       |
| Community Safety Initiatives                  | (0.5) |
| Neighbourhood Wardens                         | (0.3) |
| Public Safety                                 | (0.3) |
| Strategic Commissioning                       | (0.3) |
| New Homes for Old                             | (0.3) |
| Provision for Clawback (Children's Centres)   | (0.3) |
| Early Years – Nurseries                       | (0.2) |
| Healthwatch                                   | (0.1) |
| Education Psychologists                       | (0.1) |
| Children & Family First Service               | (0.1) |
| Net Other Underspends                         | (0.9) |
| <b>Forecast Overspend</b>                     | 5.6   |

## **Overspends**

### **Adult Social Care Community Purchasing**

The Adult Social Care Community Purchasing spend reflects external packages of care across all service user groups.

Continuing pressures on the budget are due to high service demand with the highest areas of pressure relating to older people being supported to live at home and increasing numbers of young adults with a Learning Disability.

### **Children's Placements (FSR) – (Internal & External Fostering, Internal & External Residential care, including transport costs)**

The £2.7m overspend is a combination of existing activity pressure and further activity pressure forecast for 13/14. LAC numbers were on average 586 in the 12/13 financial year, but at quarter 2 they have risen to 617. This is due to the impact of the recent serious case review as well as identification of additional need by the Children & Family First service. The forecast takes account of a significant increase in September, reflected for the remainder of the year. In addition the number of Internal Foster placements has not increased in line with expectations leading to an increase in expensive External Fostering placements. One element of this is a number of existing foster care places being lost as a result of foster carer leavers, and foster carers converting to Special Guardianship orders.

### **Additional Staffing Costs**

Due to significantly higher social work caseload levels, there is insufficient capacity to deliver Children's Social Care. An additional 2 team managers, 18 social workers, and 6 independent reviewing officers are being recruited, on a temporary basis, to bring caseloads down to a sustainable level allowing a full review of workload capacity. There are also additional 1 off costs in relation to recruitment activity, safeguarding board and audit. These costs are all to be funded from reserves in line with recommendation 1.

### **Legal Fees**

Costs in this area continue to be driven by high activity levels of Looked after Children – 104 cases are expected this year against 111 last year. The forecast is based on last year's outturn reflecting reductions in one off costs and changes in legislation.

### **Supported Accommodation**

Supported accommodation spend is increasing due to a delay in the tender process that impacts on cost as well as increased activity as a result of more 16/17 year olds transferring from LAC placements as overall numbers increase and children are transferred into more age appropriate placements.

### **Neighbourhood Social Work Teams**

The pressures in this area are the result of using agency staff to cover vacancies arising from staff turnover, maternity and sickness cover.

### **Fostering & Adoption**

The pressures in this area are the result of using more expensive agency staff to cover vacancies due to difficulties in recruiting.

### **Education Services Grant (ESG)**

The former academy topslice funding arrangements are now being resourced through ESG. With funding based on pupil numbers, as more schools convert to academies this reduces local authority resources to pay for former LEA functions. The impact on resources of academy conversions in year is expected to be £0.2m.

### **Schools Catering Service**

The service continues to recover its direct costs and contribution to corporate overheads but is not forecast to meet FSR targets for school meal take up. This is due to parents choosing alternative options for their children's meals. This shortfall has been partly offset by use of £81k residual School Meals Grant in 2013/14 only.

### **LAC Costs (Neighbourhoods)**

This pressure relates to costs incurred providing additional support to Looked After Children (LAC) including clothing, procuring official documents, home support and child care \ nursery costs.

### **Section 17 Payments**

The current overspend relates to two areas of social work activity. Social Care is paying a number of bonds to enable families to access privately rented accommodation and exit out of temporary accommodation, or where families are homeless. Work undertaken with Housing colleagues has not yet had any significant impact on reducing the demands on this budget. There is also an increasing number of families who are approaching Social Care for financial assistance, due to issues relating to receipt of their benefits.

This remains as one of the main priorities of the People Directorate to drive down costs and further work to pilot a single point of access for this funding is underway; with a view to reducing budgetary overspend as well as taking into account the impact of housing benefit changes.

### **Housing: Temporary Accommodation/Homelessness**

The rate of homelessness continues to contribute to an overspend in this area.

### **A Bolder Community Services Programme**

The ABCS Programme is working to manage significant reductions in resources up to 2016. This cost relates to the programme management costs which will ultimately be resourced from the savings delivered.

### **Underspends:**

#### **Community Safety Initiatives**

Savings arising from the reprioritisation of projects and reduced spend on initiatives.

#### **Neighbourhood Wardens**

Salary underspends forecast due to staff vacancies which are being held pending the outcome of the Neighbourhood Working Review.

#### **Public Safety**

The underspend is due to vacancies in this area and improved income.

#### **Strategic Commissioning**

The underspend is due to vacancies in this area and savings on a number of contracts within Adult Social Care.

#### **New Homes for Old**

This variation arises from both a reduction in cost compared to budget as well as an increase of income against budget from client care contributions.

#### **Provision for Claw back (Children's Centres)**

Provision was made for potential grant claw back in 12/13 in relation to Children's Centres. DFE have confirmed that they will not claw back grant funding so provision is no longer needed.

#### **Early Years - Nurseries**

The underspend is due to on-going vacancies in this area and additional income received.

#### **Healthwatch**

Forecast savings following the introduction of the proposed arrangements for the establishment of a local Health-watch in Coventry.

#### **Education Psychologists**

The underspend is due to vacancies in this area and underspends on supplies and services.

#### **Children and Family First Service**

The underspend is due to on-going vacancies in this area. This is a key part of the Early Intervention and Prevention Service, and further recruitment is planned.



**Place Directorate**

| <b>KEY VARIANCES</b>                                      | <b>£m</b>  |
|-----------------------------------------------------------|------------|
| <b>Overspends:</b>                                        |            |
| Property & Asset Management – Commercial Portfolio        | 0.6        |
| Planning, Transport & Highways – Transport & Traffic Mgmt | 0.3        |
| Planning, Transport & Highways – Car Parking              | 0.1        |
| Streetscene & Greenspace – Commercial Waste               | 0.1        |
| Streetscene & Greenspace – Domestic Waste & Recycling     | 0.4        |
| Other Variations Less Than £100k                          | 0.3        |
| <b>Underspends:</b>                                       |            |
| Streetscene & Greenspace – Sustainability                 | (0.2)      |
| Streetscene & Greenspace – Fleet Management               | (0.1)      |
| Property & Asset Management – Corporate Property          | (0.2)      |
| Management Actions.                                       | (0.2)      |
| <b>Outturn Overspend</b>                                  | <b>1.1</b> |

**Overspends:**

**Property & Asset Management – Commercial Portfolio**

Efforts continue to maintain footfall and boost economic activity through competitive rental terms, support to pop-up shops and other initiatives. Letting performance is therefore relatively good, although the downturn in rental income received, together with some inevitable void rate pressures, means historic financial performance can still not currently be achieved. Subject to the realisation of sufficient savings, the strategic property FSR is intending to re-align the current budgets as part of the fundamental review.

**Planning, Transport & Highways – Transportation & Traffic Management**

The main pressures relate to predicted under achievement of traffic management income targets associated with parking enforcement and street-work permits.

**Planning, Transport & Highways – Car Parking**

Despite on-street parking generating expected levels of income, off street car parking is slightly down on 12/13, despite having re-aligned income targets. Part of the expected deficit however is one off.

**Streetscene & Greenspace – Domestic Waste & Recycling**

The pressure relates primarily to avoidable damage costs incurred in relation to the fleet, together with the projected cost of additional collections.

**Streetscene & Greenspace – Commercial Waste**

The service has a challenging income target made more difficult by the current economic situation. Management actions are being used to reduce the deficit.

**Underspends:**

### **Streetscene & Greenspace – Sustainability**

This reflects a one-off 'holiday' for Carbon Reduction Commitment (CRC) credits in relation to Street Lighting energy carbon consumption

### **Streetscene & Greenspace – Fleet Management**

The underspend reflects one off income in relation to miscellaneous vehicle sales, training and insurance claims

### **Property & Asset Management – Corporate Property**

This largely reflects the earlier than expected delivery of some savings towards the Strategic Property FSR, targets which increase significantly in 14/15 and 15/16.

### **Management Action**

Management actions are being taken to identify savings to offset the overall adverse position for the directorate.

### **Resources Directorate**

| <b>KEY VARIANCES</b>                     | <b>£m</b>  |
|------------------------------------------|------------|
| <b>Overspends:</b>                       |            |
| Revenues and Benefits                    | 0.2        |
| ICT                                      | 0.6        |
| Procurement Services                     | 0.2        |
| <b>Underspends :</b>                     |            |
| Major Projects and Transformation        | (0.3)      |
| Human Resources                          | (0.4)      |
| Customer Services                        | (0.1)      |
| <b>Forecast Overspend / (Underspend)</b> | <b>0.2</b> |

#### **Overspends:**

##### **Revenues and Benefits**

Increased billing and banking charges in addition to reduced income from Court fees and credit card charges have put financial pressure on Revenues. Housing Benefits have seen their Administration Grant reduced by £288k in 2013/14 which is compounded by additional salary and agency costs. (This has been partly mitigated by the Welfare Reform Grant and earmarked reserve).

##### **ICT**

Overspends are as a result of a combination of temporary employee costs (covering difficult to recruit to vacant posts), one off pressures in contractual costs and a lower than expected income projection.

##### **Procurement Services**

The rebate income from contracts is reducing which is affecting the ability to meet the challenging income targets.

#### **Underspends:**

##### **Major Projects and Transformation**

One off underspends from salaries (due to vacancies) and external support were expected pending the transfer of Transformation Team into the Resources Directorate.

## Human Resources

The underspend forecast by HR includes a large overachievement of the Reed Agency rebate income. This offsets other shortfalls in other income generated by HR and also offsets costs that are being incurred in relation to Equal Pay claims.

## Customer Services

The position reported by Customer Services is made up largely from underspends on Organisational Development and an over achievement of vacancy targets. This has been offset by overspends on Post and Fastprint.

## Contingency & Central Budgets

| KEY VARIANCES                         | £m           |
|---------------------------------------|--------------|
| <b>Overspends:</b>                    |              |
| Demand Management Savings             | 0.5          |
| Other Service Areas (less than £0.1m) | 0.2          |
| <b>Underspends:</b>                   |              |
| Asset Management Revenue Account      | (3.1)        |
| Contribution from Reserves            | (0.8)        |
| Energy                                | (0.4)        |
| Pay & Inflation Contingencies         | (1.6)        |
| Policy Contingency                    | (0.2)        |
| <b>Forecast Underspend</b>            | <b>(5.4)</b> |

### Overspends:

#### Demand Management Saving

No clear actions have been identified to deliver this saving.

### Underspends:

#### Asset Management Revenue Account

The final 2012/13 outturn position for the Asset Management Revenue Account (AMRA) showed an underspend of £2.5m, reflecting a continuation of lower interest and debt repayment profiles and delays in incurring prudential borrowing within the Capital Programme. Much of this underspend has an on-going dimension to it and is therefore likely to re-occur in 2013/14. Therefore, the AMRA is reflecting a significant projected underspend at quarter 2, much of which represents an on-going saving which will be able to be applied to the 2014/15 Budget Setting process.

#### Energy

During 2013/14 budget setting a provision was made to cover the anticipated increases in energy costs. However, revised predictions are that this will not all be needed in this financial year, leading to a £0.4m underspend.

#### Pay & Inflation Contingencies

This budget is set aside to meet any undetermined pay awards or contract inflation that have not been agreed at the start of the year, increases in superannuation contributions, in particular in relation to past service and any other extra-ordinary unplanned costs of a corporate nature. The expectation is that the budget will be underspent by £1.6m.

#### Policy Contingency

No further plans to spend Policy Contingency resources.

**Capital Programme: Analysis of Budget/Technical Changes**

| SCHEME                         | EXPLANATION                                                                                                                                                                                                                          | £m         |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>PEOPLE</b>                  |                                                                                                                                                                                                                                      |            |
| Living Well With Dementia      | Department of Health grant funding to help people with dementia to live as independently as possible.                                                                                                                                | 0.4        |
| Miscellaneous                  | Net programme reduction.                                                                                                                                                                                                             | (0.1)      |
| <b>SUB-TOTAL – People</b>      |                                                                                                                                                                                                                                      | <b>0.3</b> |
| <b>PLACE</b>                   |                                                                                                                                                                                                                                      |            |
| Strategic Enabling Works       | To support the Regenerating Coventry Programme and to reduce the impact on traffic, key enabling works will be implemented prior to major construction works across the city (grant funding - Cabinet 13 <sup>th</sup> August 2013). | 0.9        |
| Miscellaneous                  | Net programme reduction.                                                                                                                                                                                                             | (0.1)      |
| <b>SUB-TOTAL – Place</b>       |                                                                                                                                                                                                                                      | <b>0.8</b> |
| <b>RESOURCES</b>               |                                                                                                                                                                                                                                      |            |
| Coombe Abbey Park Hotel        | On the 10 <sup>th</sup> September Council approved a refinancing arrangement in the form of a 15 year loan to Coombe Abbey Park Limited.                                                                                             | 6.6        |
| Miscellaneous                  | Net programme addition                                                                                                                                                                                                               | 0.1        |
| <b>SUB-TOTAL – Resources</b>   |                                                                                                                                                                                                                                      | <b>6.7</b> |
| <b>TOTAL PROGRAMME CHANGES</b> |                                                                                                                                                                                                                                      | <b>7.8</b> |

**Capital Programme: Period 6 Estimated Outturn 2013/14**

The table below presents the revised estimated outturn for 2013/14.

| DIRECTORATE  | ESTIMATED<br>OUTTURN<br>PERIOD 3<br>£M | APPROVED /<br>TECHNICAL<br>CHANGES<br>£M | OVER / UNDER<br>SPEND NOW<br>REPORTED<br>£M | RESCHEDULED<br>EXPENDITURE<br>NOW REPORTED<br>£M | REVISED<br>ESTIMATED<br>OUTTURN 13-14<br>£M |
|--------------|----------------------------------------|------------------------------------------|---------------------------------------------|--------------------------------------------------|---------------------------------------------|
| People       | 24.5                                   | 0.3                                      | 0                                           | (0.7)                                            | 24.1                                        |
| Place        | 46.8                                   | 0.8                                      | (0.1)                                       | (2.9)                                            | 44.6                                        |
| Resources    | 6.6                                    | 6.7                                      | 0                                           | 0                                                | 13.3                                        |
| <b>TOTAL</b> | <b>77.9</b>                            | <b>7.8</b>                               | <b>(0.1)</b>                                | <b>(3.6)</b>                                     | <b>82.0</b>                                 |

**Capital Programme: Analysis Of Rescheduling**

| SCHEME                                               | EXPLANATION                                                                                                                                                                                                                                                                                                                                                                              | £m           |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>PEOPLE</b>                                        |                                                                                                                                                                                                                                                                                                                                                                                          |              |
| Basic Need                                           | Due to the re-phasing of construction works on the Primary School Expansion programme.                                                                                                                                                                                                                                                                                                   | (0.7)        |
| <b>SUB-TOTAL – People</b>                            |                                                                                                                                                                                                                                                                                                                                                                                          | <b>(0.7)</b> |
| <b>PLACE</b>                                         |                                                                                                                                                                                                                                                                                                                                                                                          |              |
| Friargate Bridgedeck                                 | The projected spend in 2013/14 has increased significantly. A contractor is now on board and spending is being incurred earlier than expected.                                                                                                                                                                                                                                           | 2.4          |
| Public Realm Phase 2                                 | Works have been delayed pending the outcome of an ERDF extension funding bid.                                                                                                                                                                                                                                                                                                            | (2.1)        |
| NUCKLE (Coventry to Nuneaton railway upgrade scheme) | As a result of tender prices received, the project may now be faced with a reduced and revised programme of works. Work is continuing with partners to develop operating costs, finalise level of train service and agree a risk share proportion to enable scheme packaging that enables maximised impact of higher priority spend areas.                                               | (1.6)        |
| Whitley Junction                                     | Due to planning and legal issues the procurement of design services and contractor has been delayed pending decisions by the LEP. To minimise potential abortive costs, only essential spending has been committed.                                                                                                                                                                      | (0.7)        |
| Vehicle & Plant Replacement                          | Rescheduling of vehicle requirements resulting from the ongoing assessment of business need and vehicle condition.                                                                                                                                                                                                                                                                       | (0.3)        |
| Banner Lane (Section 106 Funding)                    | Due to the volume of schemes the Council is currently committed to delivering there will be a delay to the on-site construction for the signal and cycle improvement schemes identified for the Bannerbrook Park development. It has been decided to focus on preparing the design and cost estimate work for the schemes and not to commit to on-site construction this financial year. | (0.3)        |
| A4600 Congestion Relief Scheme                       | Changes to the procurement route have delayed this scheme. Only design and construction works at Norton Hill Drive will be undertaken in 2013-14.                                                                                                                                                                                                                                        | (0.2)        |
| Miscellaneous                                        | Net Rescheduling                                                                                                                                                                                                                                                                                                                                                                         | (0.1)        |
| <b>SUB-TOTAL – Place</b>                             |                                                                                                                                                                                                                                                                                                                                                                                          | <b>(2.9)</b> |
| <b>TOTAL RESCHEDULING</b>                            |                                                                                                                                                                                                                                                                                                                                                                                          | <b>(3.6)</b> |

**Prudential Indicators**

| Indicator                                                                                                                                                                                                                                                                                                                                                                                                                          | per Treasury Management Strategy   | As at 30 <sup>th</sup> September 2013          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------------------|
| <b>Ratio of Financing Costs to Net Revenue Stream (Indicator 1)</b> , 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).                                                                                                                                                                          | 13.15%                             | 12.66%                                         |
| <b>Gross Borrowing should not, except in the short term, exceed the estimated Capital Financing Requirement (CFR) at the end of 3 years (Indicator 3)</b> , 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. | Year 3 estimate / limit of £451.1m | £352.7m Gross borrowing within the limit.      |
| <b>Authorised Limit for External Debt (Indicator 6)</b> , 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.                                                       | £464.7m                            | £352.7m is less than the authorised limit.     |
| <b>Operational Boundary for External Debt (Indicator 7)</b> , 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.                                                                               | £420.7m                            | £352.7m is less than the operational boundary. |
| <b>Upper Limit on Fixed Rate Interest Rate Exposures (Indicator 10)</b> , 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.                             | £403.8                             | £210.9m                                        |
| <b>Upper Limit on Variable Rate Interest Rate Exposures (Indicator 10)</b> , as above highlighting interest rate exposure risk.                                                                                                                                                                                                                                                                                                    | £80.8m                             | -£11.0m                                        |
| <b>Maturity Structure Limits (Indicator 11)</b> , highlighting the risk arising from the requirement to refinance debt as loans mature:                                                                                                                                                                                                                                                                                            |                                    |                                                |
| < 12 months                                                                                                                                                                                                                                                                                                                                                                                                                        | 0% to 15%                          | 12%                                            |
| 12 months – 24 months                                                                                                                                                                                                                                                                                                                                                                                                              | 0% to 20%                          | 13%                                            |
| 24 months – 5 years                                                                                                                                                                                                                                                                                                                                                                                                                | 0% to 20%                          | 0%                                             |
| 5 years – 10 years                                                                                                                                                                                                                                                                                                                                                                                                                 | 0% to 30%                          | 5%                                             |
| 10 years +                                                                                                                                                                                                                                                                                                                                                                                                                         | 40% to 100%                        | 70%                                            |
| <b>Investments Longer than 364 Days (Indicator 12)</b> , highlighting the risk that the authority faces from having investments tied up for this duration.                                                                                                                                                                                                                                                                         | £15m                               | £0                                             |

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Coventry City Council

## Briefing Note

**To**            **Audit Committee**

**Date** 6<sup>th</sup> January 2014

**Subject**    **City Council Investment Activity**

### 1 Background and Purpose of the Note

This note provides an update on the Council's Treasury Management activity.

### 2 Treasury Management Activity

2.1 The appendix in this report includes the Council's Lending List – a list of those banking and government institutions that the Council's Investment Strategy allows us to invest cash balances with.

2.2 The current lending list is maintained from advice provided by our Treasury Management advisors (Arlingclose) which bases its judgement on information from credit rating agencies.

2.3 Since March 2013, there have been three changes to the lending list.


- Firstly, Royal Bank of Scotland has been removed as a consequence of long term restructuring plans, which include the creation of an internal bad bank to house its riskiest assets.
- Similarly, as National Westminster Bank is part of the RBS banking group, it has also been removed from the lending list.
- Finally, Goldman Sachs International Bank has been added to the lending list. Goldman Sachs International Bank is the largest European bank subsidiary of The Goldman Sachs Group Inc. The Goldman Sachs Group, Inc. is a leading global investment banking, securities and investment management firm.

2.4 The total level of investment balances held by the Council stood at £103.4m as at 29<sup>th</sup> of November 2013 compared with the £66.4m reported to Committee in March. The breakdown of these balances is shown below.

|                          | <b>March<br/>2013<br/>£m</b> | <b>November<br/>2013<br/>£m</b> |
|--------------------------|------------------------------|---------------------------------|
| Bank Deposits            | 20.4                         | 41.7                            |
| Local Authority Deposits | 11.3                         | 23.0                            |
| Money Market Funds       | 15.5                         | 21.6                            |
| Long Term Investments    | 19.2                         | 17.1                            |
| <b>Total</b>             | <b>66.4</b>                  | <b>103.4</b>                    |

2.5 Due to severe troughs in cash flow throughout November, December & January £30m borrowing from other public sector organisations was carried out in order to maintain a liquid investment portfolio to enable us to cover large periods of cash outflows. Borrowing was required as most of the investments in the table in 2.4 are for fixed terms & cannot be redeemed early to cover these cash flow troughs. All borrowing undertaken has been at a lower rate than the return on our fixed term deposits.

Appendix

|  <b>COVENTRY CITY COUNCIL LENDING LIST</b> |  |                |                                     |                |                  |                 | <b>25 Nov 2013</b> |                       |                | <b>Position number in 'Investment Grade'</b> |  |  |
|-----------------------------------------------------------------------------------------------------------------------------|--|----------------|-------------------------------------|----------------|------------------|-----------------|--------------------|-----------------------|----------------|----------------------------------------------|--|--|
| <b>USING MINIMUM ACCEPTABLE CREDIT QUALITY</b><br><b>Institution</b>                                                        |  | <b>Country</b> | <b>Long Term Rating</b>             |                |                  | <b>Limit £m</b> | <b>Term Limit</b>  | <b>Grade</b>          |                |                                              |  |  |
|                                                                                                                             |  |                | <b>Fitch</b>                        | <b>Moody's</b> | <b>S &amp; P</b> |                 |                    | <b>Fitch</b>          | <b>Moody's</b> | <b>S&amp;P</b>                               |  |  |
| Debt Management Office                                                                                                      |  | UK             | AA+                                 | Aa1            | AAA              |                 |                    | 2                     | 2              | 1                                            |  |  |
| Local Authorities                                                                                                           |  | UK             | AA+                                 | Aa1            | AAA              | £12m            | 12Mths             | 2                     | 2              | 1                                            |  |  |
| HSBC Bank plc (* See note below)                                                                                            |  | UK             | AA-                                 | Aa3            | AA-              | £11.2m          | 12Mths             | 4                     | 4              | 4                                            |  |  |
| Lloyds Bank Group                                                                                                           |  |                |                                     |                |                  |                 |                    |                       |                |                                              |  |  |
| Bank of Scotland plc (** See note below)                                                                                    |  | UK             | A                                   | A2             | A                | £6.5m           | 6Mths              | 6                     | 6              | 6                                            |  |  |
| Barclays Bank plc                                                                                                           |  | UK             | A                                   | A2             | A                | £12m            | 12Mths             | 6                     | 6              | 6                                            |  |  |
| Close Brothers Ltd                                                                                                          |  | UK             | A                                   | A3             |                  | £12m            | 100Days            | 6                     | 7              |                                              |  |  |
| Lloyds Bank Group                                                                                                           |  |                |                                     |                |                  |                 |                    |                       |                |                                              |  |  |
| Lloyds Bank plc (** See note below)                                                                                         |  | UK             | A                                   | A2             | A                | £6.5m           | 6Mths              | 6                     | 6              | 6                                            |  |  |
| Nationwide BS                                                                                                               |  | UK             | A                                   | A2             | A                | £12m            | 12Mths             | 6                     | 6              | 6                                            |  |  |
| Santander UK Plc (Abbey)                                                                                                    |  | UK             | A                                   | A2             | A                | £6m             | 6Mths              | 6                     | 6              | 6                                            |  |  |
| Standard Chartered Bank                                                                                                     |  | UK             | AA-                                 | A1             | AA-              | £12m            | 12Mths             | 4                     | 5              | 4                                            |  |  |
| Goldman Sachs International Bank                                                                                            |  | UK             | A                                   | A2             | A                | £12m            | 100 Days           | 6                     | 6              | 6                                            |  |  |
| <b>MONEY MARKET FUNDS (MMFs)</b>                                                                                            |  |                |                                     |                |                  |                 |                    |                       |                |                                              |  |  |
| Deutsche Bank Advisors                                                                                                      |  | Ireland        |                                     | Aaa            | AAA              | £12m            |                    |                       | 1              | 1                                            |  |  |
| Federated Investors                                                                                                         |  | UK             | AAA                                 | Aaa            | AAA              | £12m            |                    | 1                     |                | 1                                            |  |  |
| HSBC Asset Management                                                                                                       |  | Ireland        |                                     | Aaa            | AAA              | £12m            |                    |                       | 1              | 1                                            |  |  |
| Ignis Asset Management                                                                                                      |  | Ireland        | AAA                                 |                | AAA              | £12m            |                    | 1                     |                | 1                                            |  |  |
| HSBC Bank plc * - (Reduced limit)                                                                                           |  | UK             | £0.6m School balances at HSBC       |                |                  |                 |                    | 7 = Borderline rating |                |                                              |  |  |
| Lloyds Banking Group                                                                                                        |  |                |                                     |                |                  |                 |                    |                       |                |                                              |  |  |
| Bank of Scotland plc ** - (Reduced limit)                                                                                   |  | UK             | £5.4m School balances at Lloyds TSB |                |                  |                 |                    |                       |                |                                              |  |  |
| Lloyds Banking Group                                                                                                        |  |                |                                     |                |                  |                 |                    |                       |                |                                              |  |  |
| Lloyds Bank plc ** - (Reduced limit)                                                                                        |  | UK             | £5.4m School balances at Lloyds TSB |                |                  |                 |                    |                       |                |                                              |  |  |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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