Coventry City Council

# Public report
Cabinet Report

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| Cabinet | 17th June 2014 |
| Council | 24th June 2014 |
| Audit and Procurement Committee | 14th July 2014 |

**Name of Cabinet Member:**
Cabinet Member (Strategic Finance & Resources) – Councillor Gannon

**Director approving submission of the report:**
Executive Director of Resources

**Ward(s) affected:**
City Wide

**Title:**
2013/2014 Revenue and Capital Outturn

**Is this a key decision?**
Yes
The matter relates to financial matters in excess of £1.0m in one financial year

**Executive summary:**

This report outlines the final revenue and capital outturn position for 2013/14, reviews treasury management activity during the year and sets out the final 2013/14 Prudential Indicators reported under the Prudential Code for Capital Finance.

Cabinet is recommended to approve a balanced revenue position. This incorporates a £4m dividend from the Council's investment in Birmingham Airport plus an underlying underspend of £7.2m across all service areas. It is recommended that this £11.2m is set aside to apply to fund proposals coming out of the Council's recent Ofsted Report and a range of other proposals that will increase the long-term resilience of the Council's financial position.

With this background, there have been two broad headline areas of overspending in 2013/14:
- High numbers and costs of looked after children continues to be a major issue for the Council. It is now recognised that planned savings from the Fundamental Service Review (FSR) in this area will not deliver savings anticipated previously and this has been reflected in 2014/15 budget setting plans.
- Higher than budgeted costs within Community Services adult social care budgets have continued. The A Bolder Community Services FSR has begun to deliver savings that will

manage this position but to a revised time-scale. This too has been reflected within 2014/15 budget setting.

In addition to the proposed contributions recommended below, the outturn position also incorporates a previously budgeted contribution of £4m into reserves in relation to Business Rates. This will help protect the Council from future Business Rate volatility and enable the release of on-going revenue expenditure budgets in this area. In total, reserve balances will increase from £74m to £83m.

The final Capital Programme position reflects £10.2m of expenditure rescheduled into 2014/15 and a significantly reduced level of prudential borrowing compared to that previously forecast.

**Recommendations:**

Cabinet is requested to:

1. Approve the final revenue outturn position balanced to budget.
2. Recommend that Council approve the proposed contributions of £11.2m into reserves and to fund capital expenditure incorporated within this position outlined in Section 2.3.
3. Approve the final capital expenditure and resourcing position, incorporating expenditure of £54.5m against a final budget of £64.7m, reflecting £10.2m expenditure rescheduled into 2014/15 as set out in section 2.5 and Appendix 5.
4. Approve the outturn Prudential Indicators position in section 2.6 and Appendix 6.

Council is requested to

1. Approve the proposed contributions of £11.2m into reserves and to fund capital expenditure incorporated within this position outlined in Section 2.3.

Audit and Procurement Committee is recommended to:

1. Consider the contents of the report and determine whether there are any issues which it wants to refer to the Cabinet Member (Strategic Finance and Resources).

**List of Appendices included:**

Appendix 1 Detailed breakdown of Directorate Revenue Outturn Position
Appendix 2 Final Capital Budget 2013/14
Appendix 3 Capital Programme: Analysis of Budget/Technical Changes
Appendix 4 Capital Outturn 2013/14 – Analysis by Directorate
Appendix 5 Capital Programme: Analysis of Rescheduling
Appendix 6 Prudential Indicators

**Other useful background papers:**
None

**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?**
Audit and Procurement Committee – 14th July 2014

**Will this report go to Council?**
Yes – 24th June

**Report title:**
2013/2014 Revenue and Capital Outturn

## 1. Context (or background)

1.1 This report sets out the Council's revenue and capital outturn position in 2013/14 and performance against its Prudential Indicators for the year. The City Council set a revenue budget for the year of £268.4m and a Capital Programme of £60.6m.

1.2 This report shows the Council's financial position in relation to management accounts used to monitor performance through the year. The Audit and Procurement Committee will consider separately the Council's Statement of Accounts in July. The Statement of Accounts shows the financial position in a statutorily prescribed format including technical accounting adjustments that do not reflect how the Council's day to day finances are managed.

## 2. Options considered and recommended proposal

### 2.1 Revenue Outturn Position 2013/14

Table 1 below summarises the variation and outturn position – a balanced position overall.

**Table 1 Summary Outturn Position**

| **Directorate** | Net Budget £m | Outturn £m | Variance £m | Variance % |
|---|---|---|---|---|
| Chief Executives | 2.4 | 1.9 | (0.5) | (21%) |
| Place | 29.8 | 29.2 | (0.6) | (2%) |
| People | 162.0 | 164.9 | 2.9 | 2% |
| Resources | 14.2 | 11.6 | (2.6) | (18%) |
| Contingency & Central Budgets | 60.0 | 60.8 | 0.8 | 1% |
| Resourcing of Net Budget | (268.4) | (268.4) | 0.0 | 0 |
| Total | **0.0** | **0.0** | **0.0** | **0** |

### 2.2 Individual Directorate Positions

A summary of the most significant year-end variations is provided below with the detail provided in Appendix 1:

**People**
The People Directorate is reporting a net over-spend of £2.9m. The two most significant pressures across the Directorate, which have been monitored continuously over the financial year, are Community Purchasing spend within Adult Social Care and the continued increased high levels of activity within Children's Social care.

The programme of change from the CLYP FSR has not delivered the expected reduction in activity and therefore savings targets have not been delivered. The number of Looked after Children and child protection cases remain high and have not decreased as had previously been assumed through the FSR. Additional corporate funding has been used to fund additional social worker posts, within Children's Social Care to mitigate, in part, the continued pressures within Children's Social Care.

**Place**

The Place directorate is reporting a surplus position of £0.6m. This represents a number of one-off credits, offsetting some on-going underlying operational pressures. Bus Lane enforcement income is the most significant surplus as contraventions have been significantly higher than expected. In addition, Carbon Reduction commitment (CRC) credits are no longer required to be purchased resulting in a one-off under-spend. These together with an earlier than expected delivery of some savings towards the Strategic Property FSR, managed spend reductions on Friargate related property, application of one-off grant monies to public health related spend and other management actions have contributed to the net underspend.

On-going operational pressures are however, still being experienced in three main areas. Commercial property rents are still yielding well below historic budgeted levels. Domestic Waste has overspent against its budget due to the requirement for additional collections, replacement bin costs and fleet running costs, & waste disposal costs have exceeded budgets due to further increased disposal tonnages being experienced.

**Resources**

The Resources Directorate is reporting an underspend of £2.6m. This position is mainly attributable to significant one-off underspends in Revenues and Benefits, Human Resources and Workforce Services and the Transformation Office. Staffing restructures in Human Resources, Workforce Services and Business Improvement Teams have delivered planned in year underspends which will form part of the Resources savings plan on-going. There have been fewer than expected allocations from the Community Support Grant, a surplus in the Housing Benefit Subsidy Account and a planned reduction in external support for the Transformation Office which has delivered an under-spend. The Directorate will continue to look for ways to reduce the on-going pressures that remain, specifically in Post and Print and ICT.

**Contingency and Central Budgets**

The windfall Special Dividend from Birmingham Airport of £4m and the underspend of £6.5m on the Asset Management Revenue Account represent the most significant movements within central budgets. The £11.2m contributions recommended in section 2.3 below will, if approved, be reflected in this area, resulting in the overall net overspend across central budgets.

## 2.3 Overall Revenue Position

Due to the financial climate and with the expectation of significant future cuts in resources, officers have continued to work towards achieving a balanced position or better. To enable this, consideration of voluntary redundancy/early retirement cases and continued implementation of vacancy control is now business as usual in many areas across the Council. These actions have enabled a broadly balanced budgetary position across the Council's service directorates. The £4m dividend from the Council's shares in Birmingham Airport along with the underspend generated from the Asset Management Revenue Account (AMRA) have provided the resources to fund the year-end contributions proposed below. For those areas showing the most significant variations in 2013/14 (the AMRA underspend and overspends in both Children's and Adult's social care) budget re-alignments have been incorporated to address the headline issues as part of the 2014/15 budget setting process.

A total of 40 number of Equal Pay claims costing £74,000 have been paid in 2013/14 with only 1 claim now remaining outstanding. This means that the final overall cost of settled claims is marginally over £7m, the vast majority of which was incurred prior to 2013/14. The Council's view is that the risk of further significant claims being received is now very low and the residual level of provision to pay for future claims has been reduced as a result from over £15m to £0.5m. Due to the capitalised nature of the provision – which spreads the cost over a number of years – its part reversal now does not affect the Council's 2013/14 outturn position reported here.

Redundancy and pension strain costs of £4.7m relating to 191 individuals have been accounted for in the 2013/14 financial year under the voluntary redundancy/early retirement programme funded from on-going budgets and reserves earmarked for this purpose. The overall level of ER/VR cases over the last 4 years now stands at around 1,000.

The final revenue outturn position offers flexibility to fund several strategically significant areas of expenditure and this report recommends that the following proposals are approved. The headline balanced revenue position is shown on the basis that all of these proposals are approved:

- £4m to fund the Ofsted Implementation Plan in addition to the additional funding approved in this area as part of 2014/15 Budget Setting.
- £2m to establish a reserve to balance the risk of non-payment of external investments
- £2m to establish one-off funding for the Council's leisure facilities spending, probably to be used to replace prudential borrowing of existing expenditure in 2014/15 which will enable on-going savings of c£0.4m in future years.
- £2.7m to fund capital expenditure in place of Prudential Borrowing and releasing an on-going revenue saving of £0.6m in future years.
- £0.5m to add to the Council's Early Retirement/Voluntary Redundancy reserve to enable the Council to continue to restructure and rationalise services in line with on-going funding reductions.

## 2.4 Reserves

The total reserve balance at the end of 2013/14 is £83m, an increase of £10m on the level of reserves at the end of 2012/13. The main increases have occurred within reserves established to help manage Business Rate volatility under the new localisation of Business Rates arrangements and the amount set aside for the Council's Ofsted Improvement Plan as part of this report's recommendations. The Council's General Fund Reserve has been maintained at £9.6m. The total reserve movement in 2013/14 is summarised in Table 2 and the main changes and reasons for holding balances are outlined below:

**Table 2 Summary of Reserve Movement in 2013/14**

| | Opening Balance 1st April 2013* £m | Movement In year £m | Closing Balance 31st March 2014 £m |
|---|---|---|---|
| Other Earmarked Reserves | (34.8) | (15.2) | (50.0) |
| Capital Reserves | (5.6) | 3.6 | (2.0) |
| Insurance Fund | (4.1) | 0.8 | (3.3) |
| Schools Reserves | (19.4) | 0.9 | (18.5) |
| General Fund Reserves | (9.6) | 0.0 | (9.6) |
| **Total Reserves** | **(73.5)** | **(9.9)** | **(83.4)** |

*Overall opening balances are £1.1m lower than reported at 2012/13 outturn position following an adjustment resulting from compilation of the statutory 2012/13 Statement of Accounts.

**Earmarked Reserves £50.0m (£15.2m higher) -** Reserves held to assist the management of corporate and directorate budgets, primarily in respect of specific projects or commitments. The main balances and movements are:

- **£10.3m** (£1.8m higher) held as part of the funding models relating to the Street Lighting, Caludon and New Homes For Old Private Finance Initiative projects.
- **£6.4m** (£6.4m higher) Budgeted contributions set aside as future protection against Business Rates volatility, enabling on-going revenue savings.
- **£4m** (£4m higher) set aside for the Ofsted Improvement Plan in line with the recommendation in this report
- **£3.6m** (£1.1m higher) Relating to schools related expenditure centrally retained
- **£3.2m** (£2.5m higher) to support the existing plans for leisure facilities including the £2m recommended as part of this report
- **£2.8m** (£2.5m lower) to fund Early Retirement and Voluntary Redundancy decisions.
- **£2.8m** (£0.8m higher) of Coventry and Solihull Waste Disposal Company contributions set aside to deliver budgeted savings targets in future years.
- **£2.5m** (£0.1m higher) of specific grant funding for Public Health
- **£1.8m** (£0.5m higher) for jointly funded health and social care schemes
- **£1.3m** (£0.6m higher) set aside to smooth expenditure patterns for the vehicle purchase programme between years
- **£1.1m** (£0.5m higher) troubled families initiative grant funding

**Schools Reserves £18.5m (£0.9m lower) -** Held on behalf of individual schools for their own specific purposes.

**General Fund Reserve £9.6m** (no change) - The Council's General Fund Reserve held to manage unforeseen risks to the Council's overall financial position**.**

**Insurance Fund £3.3m (£0.8m lower) -** This is held to cover potential claims against the Council. We hold a separate insurance provision for known claims.

**Capital Reserves £2m (£3.6m lower) –** The remaining balance is earmarked to balance the risk of non-payment of external loans reflecting the £2m contribution recommended as part of this report.

### 2.5 Capital Outturn Position 2013/14

The capital outturn position for 2013/14 is shown in summary form below and in greater detail in Appendices 2, 3, 4 and 5:

**Table 3: Capital Outturn Summary**

| Final Budget £m | Final Spend £m | Net Rescheduling Now Reported £m | Total Variance |
|---|---|---|---|
| 64.7 | 54.5 | (10.2) | (10.2) |

The period 8 monitoring report to Cabinet on 11th February 2014 approved a revised capital budget of £66.2m for 2013/14. Since then there has been a net programme reduction of £1.5m giving a final budget for the year of £64.7m. The changes to the budget are analysed in Appendix 3. Since February, a total of £10.2m net rescheduled spending has arisen on directorate capital programmes (a scheme by scheme analysis is included in Appendix 5).

**Capital Receipts**

Capital receipts arising mainly from the disposal of our property portfolio assets provide an important source of funding of the capital programme. The period 8 report reflected an expectation that the £5.9m target level of capital receipts would be achieved in 2013/14. At the end of the financial year this level of funding has been exceeded. In addition to the £8.5m capital receipts applied to fund capital expenditure in 2013/14, a further £2.3m capital receipts have been set-aside to repay prior years' prudential borrowing consistent with the Council's Medium Term Financial Strategy.

**Funding of the Capital Programme**

The funding in respect of this capital expenditure of £54.5m is summarised below:

**Table 4. Funding**

| | £m |
|---|---|
| Prudential Borrowing | 2.3 |
| Grants and Other Contributions | 30.8 |
| Revenue Contributions | 12.9 |
| Capital Receipts | 8.5 |
| **Total Resourcing** | **54.5** |

## 2.6 Treasury Management Activity in 2013/14

### Economic Activity and Interest Rates

Annual economic growth has increased recently and stood at 2.7% at the end of 2013. The Office for Budget Responsibility has forecast similar growth for 2014. However, the main downside risk is that the pickup in domestic growth proves to be unsustainable, either because productivity and real incomes continue to disappoint or business investment does not recover as expected. In addition, the Eurozone has struggled to show sustainable growth. In the light of this the European Central Bank reduced interest rates to 0.25%. Of other indicators, CPI inflation fell from 2.8% (March 2013) to 1.7% (Feb 2014), the lowest rate since October 2009. In addition, the unemployment rate fell to 7.2% at the start of 2014, slightly above the Bank of England's threshold for considering the potential for interest rate rises. Within this broader context, the UK sovereign credit rating was maintained at AA+.

The UK base rate has remained at 0.5% since 2009, although there are now suggestions that rates might rise in increments from 2015 or 2016. Linked to this, market investment and borrowing rates for up to 12 month periods stood at less than 1% through the year.

Longer term rates, at which local authorities borrow from the Public Works Loans Board (PWLB), were:-

**Table 5: PWLB Interest Rates**

| PWLB Loan Duration (standard rates) | Minimum in 2013/14 | Maximum in 2013/14 | Average in 2013/14 |
|---|---|---|---|
| 5 year | 1.70% | 3.00% | 2.46% |
| 20 year | 3.71% | 4.63% | 4.32% |
| 50 year | 4.04% | 4.46% | 4.46% |

Given the above rates it has continued to be cheaper for local authorities to use short rather than long term funds for financing.

**Long Term Funding**

At outturn, the Capital Financing Requirement (CFR), which indicates the authority's underlying need to borrow for capital purposes, has reduced by £19.5m:-

**Table 6: 2013/14 Capital Financing Requirement (CFR)**

| | £m |
|---|---|
| Capital Financing Requirement at 1st April 2013 | 427.2 |
| Borrowing to finance 2013/14 Capital Programme | 2.3 |
| PFI & Finance Leases liabilities | 11.0 |
| Provision to Repay Debt (Minimum Revenue Provision) | (14.7) |
| Provision to Repay Debt (Capital Receipts Set Aside) | (2.3) |
| Repayment of Transferred Debt | (0.7) |
| Reduction of Provision and other restatements | (15.1) |
| Capital Financing Requirement at 1st April 2014 | **407.7** |

The CFR includes a reduction of £15m in respect of the Equal Pay provision which was capitalised in 2008/09, but is now no longer fully required.

No new long term borrowing was taken out during 2013/14, but £13m PWLB loans were repaid on maturity. However, some borrowing will be required in the future to support current capital expenditure plans and the need for any such borrowing will be kept under review in 2014/15. Within 2013/14, the movements in long-term borrowing and other liabilities were:-

**Table 6 : Long Term Liabilities (debt outstanding)**

| Source of Borrowing | Balance at 31st March 2013 £m | Repaid in Year £m | Raised in Year £m | Balance at 31st March 2014 £m |
|---|---|---|---|---|
| PWLB | 239.8 | (13.0) | 0 | 226.8 |
| Money Market | 59.0 | 0 | 0 | 59.0 |
| Stock Issue | 12.0 | 0 | 0 | 12.0 |
| **sub total ~ long term borrowing** | **310.8** | **(13.0)** | **0** | **297.8** |
| Other Local Authority Debt | 19.0 | (0.8) | 0 | 18.2 |
| PFI & Finance Leasing Liabilities | 54.5 | (1.6) | 11.0 | 63.9 |
| Other | 0.7 | (0.1) | 0 | 0.6 |
| **Total** | **385.0** | **(15.5)** | **11.0** | **380.5** |

This long term borrowing is repayable over the following periods:-

**Table 7. Long Term Borrowing Maturity Profile (excluding PFI & transferred debt)**

| Period | Long Term Borrowing £m | Short Term Borrowing £m |
|---|---|---|
| Under 12 Months | 35.5 | 10.0 |
| 1 – 2 years | 39.9 | 0 |
| 2 – 5 years | 13.8 | 0 |
| 5 – 10 years | 15.9 | 0 |
| Over 10 years | 192.7 | 0 |
| **Total** | **297.8** | **10.0** |

In line with CIPFA Treasury Management Code requirements, Lenders Option, Borrowers Option Loans (LOBOs) with banks are included in the maturity profile based on the earliest date on which the lender can require repayment. The Council has £58m of such loans, £30m of which the lender can effectively require to be paid at 6 monthly or annual intervals, and £28m at 5 yearly intervals.

**Short Term In House Borrowing and Investments**

The Treasury Management Team acts on a daily basis to manage the City Council's day to day cash-flow, by borrowing or investing for short periods. By holding short term investments, such as money in call accounts, authorities help ensure that they have an adequate source of liquid funds.

During the year minimal short term borrowing was taken out in order to meet day to day cashflow requirements. At 31st March £10m of temporary borrowing was outstanding with this being repaid on 27th May 2014. The average short term borrowing rate in 2013/14 was 0.4017%.

The bulk of the Council's cashflow requirements were met from its own cash and short term investment balances. During the year the council held significant short term investments, as set out in Table 8. The average short term investment rate in 2013/14 was 0.4854%.

**Table 8. In House Investments at 31st March 2014**

| | At 30th June 2013 £m | At 30th Sept 2013 £m | At 30th Nov 2013 £m | At 31st Mar 2014 £m |
|---|---|---|---|---|
| Banks and Building Societies | 53.8 | 54.7 | 41.7 | 17.8 |
| Local Authorities | 28.0 | 13.0 | 23.0 | 32.0 |
| Money Market Funds | 19.8 | 7.4 | 21.6 | 28.1 |
| **Total** | **101.6** | **63.1** | **86.3** | **77.9** |

In addition to the above in house 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 due to volatility to be smoothed out.

**Table 9: External, Pooled Investments as at 31st March 2014**

| | Date Invested | Cost £m | Value £m | Annualised Return % |
|---|---|---|---|---|
| CCLA | Nov 2013 | 3.0 | 3.05 | 5.26% |
| Payden Sterling Reserve | Feb 2012 | 9.0 | 9.17 | 1.13% |
| Federated Prime Rate Cash Plus | Mar 2013 | 5.0 | 5.03 | 0.54% |
| **Total** | | **17.0** | **17.25** | **1.39%** |

In placing investments the authority manages credit risk within the parameters set out in the investment strategy, approved as part of the budget setting report. Central to this is the assessment of credit quality based on a number of factors including credit ratings, credit default swaps (insurance cost) and sovereign support mechanisms. Limits are set to manage exposure to individual institutions or groups. Whilst the fears of systemic banking failures may have receded, recent regulatory changes make it almost certain that unsecured and corporate investors would suffer losses in the event of a bank default. Credit risk remains an issue for local authorities.

**Prudential and Treasury Indicators**

The Local Government Act 2003 and associated CIPFA Prudential and Treasury Management Codes set the framework for the local government capital finance system. Authorities are able to borrow whatever sums they see fit to support their capital programmes, subject to them being able to afford the revenue costs. The framework requires that authorities set and monitor against a number of prudential and treasury 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.

**Revenue Related Prudential Indicators**

Within Appendix 6 the Ratio of Financing costs to Net Revenue Stream (Ref 1) highlights the revenue impact of the capital programme. This shows that the revenue costs of financing our capital expenditure as a proportion of our income from government grant and Council Tax. The actual is 12.80%, as against a 13.15% as forecast in the Treasury Management Strategy. This reflects a lower level of borrowing than anticipated to fund the Capital Programme and higher levels of investment balances.

**Capital and Treasury Management Related Prudential Indicators**
These indicators, set out in Appendix 6, include:

- **Authorised Limit for External Debt** (Ref 5) ~ This represents the level of gross borrowing which could be afforded in the short term, but is not sustainable. It is the forecast maximum borrowing need, with some headroom for unexpected movements and potential debt restructuring. This is a statutory limit. Borrowing plus PFI and finance lease liabilities at £390.6m was within the limit of £464.7m.

- **Operational Boundary for External Debt** (Ref 6) ~ This indicator is based on the probable level of gross borrowing during the course of the year; it is not 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. Borrowing plus PFI and finance lease liabilities at £390.6m was within the boundary of £420.7m.

- **Gross Debt v "Year 3" Capital Financing Requirement** (Ref 2) ~ The Council needs to be certain that net external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the current year plus the estimates of any additional capital financing requirement for the next two financial years. The CFR is defined as the Council's underlying need to borrow, after taking into account other resources available to fund the Capital Programme. This indicator is designed to ensure that over the medium term, net borrowing will only be for a capital purpose. Gross debt is within the “year 3” or 2015/16 CFR limit.

- **Debt Maturity Structure, Interest Rate Exposure and Investments Longer than 364 Days** (Ref 8 - 10) ~ The purpose of these prudential indicators 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 Councils overall financial position. Treasury Management activity was within these limits. The Debt Maturity PI (Ref 9) indicates that there is a potential 14.8% of total debt that needs to be refinanced in 2014/15, compared to the PI limit of 15% in the 2013/14 Treasury Management Strategy. The potential refinancing need includes LOBO loans for which the lender effectively has a call option, which if exercised would require the Council to repay the loan. If these loans were required to be repaid, the City Council would look to refinance these at lower borrowing costs or through the use of investment balances in the first instance.

## 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 of Resources

5.1 Revenue

The final revenue outturn picture for 2013/14 is a balanced position after contributions of £11.2m outlined in section 2.3. Large overspends have occurred within individual service areas, most notably adults and children's social care. Additional budgetary provision has been approved by members in both of these areas within the 2014/15 Budget Setting process to try and ensure that they do not continue to represent budgetary over-spends. It is important to be aware however that the Council will need to make significant investments in services for children following the recent Ofsted judgement and these could exceed the initial £4m contribution recommended within this report.

The Asset Management Revenue Account has delivered a significant saving compared to previous estimates attributable in large part to efforts to minimise the level of borrowing that the Council has required. A combination of later than anticipated capital spending profiles and higher than anticipated capital receipts (over several years) has enabled this saving to be generated. The underlying and on-going flexibility in this area of the Council's budget has been approved as a £5m saving in the 2014/15 budget. The measures that have helped to generate this saving will continue to be taken to help strengthen the financial position of the Council as a whole and will continue to be a very important feature of the Council's medium term financial planning.

With the exception of the Ofsted Improvement Plan element, the contributions set aside in reserves and to fund capital expenditure are also designed to strengthen the Council's financial position so that it is in a robust position to tackle the serious financial challenges of the next few years. Aside from the £4m dividend from Birmingham Airport, the under-spends that have funded these contributions represent less than 3% of the Council's net budget or 1% of its gross budget. Whilst the overarching aim of regular budgetary monitoring is to achieve a balanced position at year-end, the Council's continued achievement of modest underspends demonstrates the strength of its budget management processes and approach.

5.2 Capital

The application of grant funding, capital receipts and revenue contributions has been maximised resulting in a significantly reduced level of prudential borrowing compared to that forecast at Period 8 (£2.3m compared to £21.8m). Prudential Borrowing approvals not utilised for the 2013/14 programme will be applied in future years as capital spending is incurred.

5.3 Legal implications

There are no specific legal implications in relation to this report.

## 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 monitors the quality and level of service provided to the citizens of Coventry and the key objectives of the Council Plan. As far as possible we will try to deliver better value for money in the services that we provide in the context of managing 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?**

The revenue and capital outturn position reported here demonstrates that the Council continues to undertake sound overall financial management. This will continue to be very important in the light of the massive challenges being faced with regard to the level of funding available to local government over the next few years.

**6.4 Equalities / EIA**

No specific impact.

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

No impact.

**6.6 Implications for partner organisations?**

None.

**Report author(s):**
**Paul Jennings**
**Name and job title:**
**Finance Manager – Corporate Finance**
**Directorate:**
**Resources**
**Tel and email contact:**
024 7683 3753 – paul.jennings@coventry.gov.uk
Enquiries should be directed to the above person.

| Contributor/approver name | Title | Directorate or organisation | Date doc sent out | Date response received or approved |
|---|---|---|---|---|
| **Contributors:** | | | | |
| Ian Brindley | Lead Accountant | Resources | 28/5/14 | 28/5/14 |
| Michael Rennie | Lead Accountant | Resources | 28/5/13 | 28/5/13 |
| Phil Helm | Finance Manager | Resources | 2/6/14 | 2/6/14 |
| Ewan Dewar | Finance Manager | Resources | 2/6/14 | 2/6/14 |
| Rachael Sugars | Finance Manager | Resources | 2/6/14 | 2/6/14 |
| Martin Yardley | Executive Director Place | Place | 2/6/14 | 3/6/14 |
| **Names of approvers:** (officers and members) | | | | |

| | | | | |
|---|---|---|---|---|
| Finance: Barry Hastie | Assistant Director Finance | Resources | 30/5/14 | 4/6/14 |
| Lara Knight | Governance Services Officer | Resources | 2/6/14 | 2/6/14 |
| Legal: Carol Bradford | Legal Officer | Resources | 2/6/14 | 3/6/14 |
| Director: Chris West | Executive Director Resources | Resources | 30/5/14 | 4/6/14 |
| Members: Cllr Gannon | Cabinet Member (Strategic Finance and Resources) | | 2/6/14 | 4/6/14 |

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

Appendix 1 details directorate Over and (Under) spends.

| **Chief Executive's** | £m | |
|---|---|---|
| Policy and Performance | (0.2) | Salary underspends due to vacant posts being held and maternity leave plus application of grant resources to Public Health related expenditure |
| Variations less than £100k | (0.1) | |
| **Total Variation** | **(0.3)** | |

| **Resources Directorate** | £m | |
|---|---|---|
| Post and Print | 0.4 | Overspend incurred in Post and Print due to increased costs of Multi Functional Devices (photocopiers, £280k) and Postage and to income shortfalls. |
| ICT Operations | 0.4 | Overspends on agency staff (£312k funded partly from salary underspends), Income shortfalls due to reduced demand from schools and increased costs of Telephony offset by underspends on other spend within ICT. |
| Resources Mgt Team & Overheads | 0.3 | One off in-year including legal fees relating to Arena issues. |
| Business Improvement Team | (0.1) | Salary savings due to vacant posts being held in year pending restructure |
| ICT Mgt | (0.1) | Underspends on ICT hardware and software budgets on Management team in order to fund pressures elsewhere in ICT. |
| Health & Safety | (0.1) | Salary savings due to vacant posts being held in year pending restructure |
| HR Recruitment | (0.6) | Over-acheivement of rebate income from the Council's agency contracts with Reed and Pertemps. This income is offset by agency costs incurred throughout the Council in other directorates. |
| Talent & Skills Team | (0.8) | Underspend on staffing and professional fees on training pending implementation of Workforce Development restructure |
| Transformation Programme Office | (0.8) | Planned reduction in external support (£607k) and salary savings from holding vacant posts, pending revised structure, in year (£157k). |
| Benefits | (0.9) | Underspend on Community Support Grant (£800k) as a result of low demand of the grant throughout the year and a surplus on the Benefit Subsidy account (£300k) offset by an overspend on Benefit Administration as a result of reduced Benefit Admin Grant. |
| Variations less than £100k | (0.4) | |
| **Total Variation** | **(2.6)** | |

| **Public Health** | £m | |
|---|---|---|
| Variations less than £100k | (0.2) | |
| **Total Variation** | **(0.2)** | |

| **People Directorate** | £m | |
|---|---|---|
| LAC Services | 3.9 | The overspend is due to high looked after children (LAC) activity, resulting in high numbers of placements. LAC numbers have risen in 13/14 - on average there were 586 in the 12/13 financial year, rising to 624 for 13/14. This takes account of a significant increase in the last six months of 13/14. The number of Internal Foster placements has not increased in line with expectations resulting in the need to resort to the use of more expensive External Fostering placements. The average number of external fostering placements in 13/14 was 256, compared with 214 in 12/13. The average level of internal foster placements has dropped to 157 (in 2012/13 this was 171). |
| Mental Health & Learning Disabilities | 1.3 | Overspend of £1.4m due to continued high level of activity and support to young people with a Learning Disability, and increasing activity in Mental Health services. Partially offset by salary underspends across the service operational teams |
| Older People & Physical Impairment | 1.2 | Overspend of £1.3m due to continuing pressure on the budget arising from high service demand for older people being supported to live at home partially offset by salary underspends. |
| Child Protection | 0.9 | A combination of various pressures in children's social care ranging from:<br>a) social work staffing levels due to high levels of agency staff covering vacancies, and high volumes of work<br>b) legal costs driven by high activity levels (131 cases in 2013/14 compared to an estimate at quarter 3 of 111) and barrister fees<br>c) discretionary payments to prevent children from becoming looked after, largely made up of housing costs for families who are homeless or in temporary accommodation, or for families awaiting benefits or with no recourse to public funds. |
| Strategy & Commissioning (CLYP) | 0.4 | There is a significant overspend on Supported Accommodation, this is due to high levels of spot purchasing of placements as a result of the timing of the new contract, and higher levels of demand for the service than anticipated. |
| Head of Group - Strategy, Commissioning & Transformation | 0.2 | Programme management costs to enable the delivery of the ABCS programme. |
| Business Performance (Social Care Targeted and Early Intervention) | 0.1 | The overspend relates to Looked After Children transport and is due to 5 out of city placements where costs for journeys over 20 miles are met by the Local Authority and not the extenal fostering agency. There is an increase in out of city external fostering placements due to demand, and the majority of in city capacity having been utilised. |

| | | |
|---|---|---|
| Catering | 0.1 | The service continues to recover its direct costs and contribution to corporate overheads but is not forecast to meet FSR income targets for take up of school meals. This overspend has been partly offset by use of £81k residual School Meals Grant in 2013/14 only. |

| **People Directorate (Continued)** | £m | |
|---|---|---|
| Adult Social Care Provider Services | (0.1) | Underspend due to vacant post savings across Provider services partially offset by overspend in Housing with Care schemes |
| Integrated Youth Support Service | (0.2) | The underspend of 0.2m on Youth Services is due to vacancies in this area pending the service restructure. |
| Learning & Achievement | (0.2) | Salary and running costs less than forecast combined with an over-achievement of income from schools. |
| Health Overview & Wellbeing | (0.2) | Underspend following the introduction of a local Health-watch in Coventry, as well as other savings on health related projects |
| Business Performance (Safeguarding, Performance and Quality) | (0.2) | The under-spend relates to salary underspends across the Business Support Service, Transport Bureau and Home to School Escorts. |
| Strategic Commissioning (Adults) | (0.9) | Underspend due to vacancies, savings on a number of contracts, early delivery of some aspects of ABCS savings as well as additional income and reduced costs on New Homes for Old |
| Strategic Management (Social Care Targeted and Early Intervention) | (0.9) | This is the financial strategy deployed to balance the directorate's bottom line including contributions from reserves, and utilisation of non-ring-fenced grant funding for existing expenditure. The variance against this relates to additional contributions from reserves, and additional savings identified throughout the year. |
| Early Years, Parenting & Childcare | (1.0) | DFE have confirmed that grant funding, for which provision was made, will not be clawed back, resulting in a one-off underspend of £0.4m. A further £0.6m of underspend across Early Years Nurseries and Children's Centres due to on-going vacancies and additional income received is also included. |
| Public Safety | (1.3) | Underspends due to staff vacancies held during Neighbourhood Working review, vacancies and additional income within public safety as well as reprioritisation and reduced spend on Community Safety initiatives |
| Variations less than £100k | (0.2) | |
| **Total Variation** | **2.9** | |

| **Place Directorate** | £m | |
|---|---|---|
| Waste & Fleet Services | 1.0 | This largely relates to higher waste disposal costs due to a significant increase in tonnages of waste disposed. Additionally, refuse collection is also overspent as a result of higher than budgeted sickness, fleet cost pressures and the additional cost of Christmas collections |
| Commercial Property | 0.5 | Rents achieved have again not been sufficient to achieve the targets which were set prior to the economic downturn |
| Maintenance | 0.2 | Under achievement of income against targets due to reducing business from schools, together with a one off write off of other income. Service has now restructured to be more competitive and early indications for 14/15 are that this trend is reversing. |
| Technical Services | 0.2 | High value projects managed by the project delivery team have been delayed until 14/15, resulting in reduced fees in year |
| Highways | 0.2 | Primarily relating to the delayed achievement of expected operational savings and a one-off refund of works costs |
| Building Sustainable Communities | (0.2) | Coventry is exempt from the Carbon Reduction Commitment scheme with effect from 13/14. Budgets have been adjusted from 14/15 |
| City Centre and Development Resources & New Projects | (0.2) | Underspend generated from securing greater levels of grant, and reducing the burden upon Council resources. |
| Development Management & Planning Policy | (0.2) | Improvement in income due to work on big development schemes (e.g. Friargate). |
| PAM Management & Support | (0.3) | Early savings achieved from the Strategic Property review FSR. |
| Corporate Property | (0.3) | Largely the reduced cost of planned and reactive corporate property repairs as VfM challenge is escalated on Friargate related property, together with a one-off windfall from business rates appeals rebates |
| Cultural & Sport | (0.3) | Application of grant resources to Public Health related sports expenditure |
| Place Directorate & Support | (1.0) | Increase in Bus Lane Enforcement income and management actions within Place Directorate to offset pressures and achieve corporate savings targets. |
| Variations less than £100k | (0.0) | |
| **Total Variation** | **(0.6)** | |

| **Contingency and Central Budgets** | £m | |
|---|---|---|
| Recommended Outturn Contributions | 11.2 | Proposed contributions into reserves and to fund capital expenditure per this report's recommendations. |
| abc Savings | 1.6 | The final overspend is £0.5m higher than at period 8 due primarily to a one-off shortfall of £0.5m in the Commissioning and Purchasing Review to add to previously reported shortfalls in savings in the areas of Demand Management (£0.5m) and Headcount Reduction (£0.4m). The reviews for headcount reduction and commissioning and purchasing are now on track to meet their targets in 2014/15. |
| Inflation and Central Contingencies | (1.5) | The final underspend reflects additional one-off resources totalling £0.9m returned by Government in relation to amounts withheld previously for Academy funding and the capitalisation top-slice. This is in addition to under-spends on contingency budgets albeit at lower levels than anticipated at period 8. |
| Asset Management Revenue Account | (10.5) | The includes a final underlying under-spend of £6.5m plus the £4m special dividend from Birmingham Airport. The underlying under-send reflects the continuation of lower interest and debt repayment profiles and delays in incurring prudential borrowing within the Capital Programme. The on-going element of this position has been built into 2014/15 Budget Setting. |
| Variations less than £100k | 0.0 | |
| **Total Variation** | **0.8** | |

**Appendix 2**

**Final Capital Budget 2013/14**

The table below presents the final approved capital budget for 2013/14.

| DIRECTORATE | APPROVED BUDGET PERIOD 8 £m | APPROVED / TECHNICAL CHANGES £m | FINAL BUDGET 13-14 £m |
|---|---|---|---|
| People | 15.2 | (0.1) | 15.1 |
| Place | 41.9 | (1.5) | 40.4 |
| Resources | 9.1 | 0.1 | 9.2 |
| **TOTAL** | **66.2** | **(1.5)** | **64.7** |

The table above shows a net reduction to the programme of £1.5m since Period 8. Changes in excess of £0.1m are explained in Appendix 3 below.

**Appendix 3**

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

| SCHEME | EXPLANATION | £m |
|---|---|---|
| **PEOPLE** | | |
| Leased Equipment | Realignment of budget consistent with final spending and reflecting that leasing of smaller items of equipment is no longer cost effective. | (0.1) |
| **SUB-TOTAL – People** | | **(0.1)** |
| **PLACE** | | |
| Highways Enabling Works | Realignment of budget to reflect the costs of enabling works being accommodated within other capital programme schemes. | (0.9) |
| Property Repairs | Reclassified as revenue spend within existing budget approval. | (0.5) |
| Highways Investment | Reclassified as revenue spend within existing budget approval. | (0.1) |
| **SUB-TOTAL – Place** | | **(1.5)** |
| **RESOURCES** | | |
| Miscellaneous | Net addition to the programme | 0.1 |
| **SUB-TOTAL – Resources** | | **0.1** |
| **TOTAL BUDGET / TECHNICAL CHANGES** | | **(1.5)** |

**Appendix 4**

## CAPITAL OUTTURN 2013/14 – ANALYSIS BY DIRECTORATE

The final capital outturn for 2013/14 is £54.5m compared to the final budget at outturn of £64.7m.

| DIRECTORATE | FINAL BUDGET 2013/14 £m | OUTTURN 2013/14 £m | RESCHEDULED EXPENDITURE NOW REPORTED £m | TOTAL VARIATION £m |
|---|---|---|---|---|
| People | 15.1 | 12.9 | (2.2) | (2.2) |
| Place | 40.4 | 32.9 | (7.5) | (7.5) |
| Resources | 9.2 | 8.7 | (0.5) | (0.5) |
| **TOTAL** | **64.7** | **54.5** | **(10.2)** | **(10.2)** |

**Appendix 5**

**Capital Programme: Analysis Of Rescheduling**

| SCHEME | EXPLANATION | £m |
|---|---|---|
| **PEOPLE** | | |
| Basic Need | Projects at a number of schools were revised due to negotiations over target costs taking longer than anticipated and the need to conduct value engineering processes. | (1.1) |
| Emergency Condition Fund | Anticipated demand for Emergency Condition Projects over the winter months did not materialise. | (0.2) |
| Early Years | Provision of additional 2 Year old places continues as a priority and it is anticipated that rescheduled spend into 2014-15 will be allocated to further schemes. Changes in management of the programme will support this. | (0.3) |
| Tackling Fuel Poverty | Due to changes in the Energy Companies Obligation funding regimes. | (0.3) |
| Siskin Drive | Delays due to legal proceedings and the need to obtain planning consent and undertake an environment survey prior to the tendering process. | (0.1) |
| Living Well With Dementia | Delays in getting work started on site have meant that the scheme has slipped to 2014-15. Changes in the way the ECO funding regimes works is also part of the delay, the works for this is already with Kier Services and will be completed in 2014 | (0.1) |
| Miscellaneous | Net Rescheduling | (0.1) |
| **SUB-TOTAL – People** | | **(2.2)** |
| **PLACE** | | |

| | | |
|---|---|---|
| Friargate Bridgedeck | The original cashflow was based on a January 2014 start on site. Works commenced in March 2014, following agreement of target cost, and therefore construction costs factored into 13/14 have been rescheduled to 2014/15, including the steel beam order which was estimated at c£1m. The forecast included for utilities diversion costs of £1m has been reduced to under £400,000, with the bulk of the costs still to be paid as we go through the statutory process | (1.5) |
| M40 Junction 12 | Consistent with the RGF financial cycle, the value of this rescheduling will form part of a payment made to Warwickshire in July 2014. | (0.8) |
| Vehicle Replacement | Delays are due to revised vehicle specifications and build times together with a reassessment of in year vehicle replacement requirements. | (0.8) |
| Property Repairs | Several schemes, including Civic Centre 2 roof repairs and Central Library lift refurbishment have been rescheduled due to technical specifications, tendering delays and contractor lead times. | (0.6) |
| Heatline | Finalising of the last element of phase 1 will now be complete in 2014/15. | (0.5) |
| AT7 Centre | Some non-critical works have been rescheduled and the breakthrough works from the new to the existing building have been delayed to minimise the impact on users. Overall the scheme remains on track. | (0.4) |
| Highways Investment | Mainly due to the delay in delivery of the micro asphalt programme and three large resurfacing schemes. | (0.4) |
| Growing Places Fund | Some projects have progressed slower than anticipated. Officers are working closely with businesses to encourage the submission of applications/claims which are now coming in on a more regular basis. | (0.4) |
| Cycle Coventry | Surfacing works at Charter Avenue were delayed due to poor drainage. The Hearsall Common scheme was rearranged to accommodate other works being undertaken by Western Power and is scheduled to complete in May 2014. | (0.4) |
| South-West Coventry Junction Improvement | Works commenced on site earlier than originally anticipated. | 0.3 |
| Integrated Transport Programme | Rescheduling has arisen on one of the Safety Schemes which commenced later than anticipated in Mid-March. | (0.3) |
| Nuckle | Delays relating to legal negotiations around the signing of the Asset Protection Agreement together with less than expected project management costs being incurred in 13/14. | (0.3) |
| Hinckley Road Cycle Scheme | Start on site was delayed until March due to the need to rearrange work to accommodate Western Power laying a new HV cable over a period lasting several weeks. | (0.2) |
| Friargate Office Building | Due to a re-programming of the design & procurement approach for the Council's new office building. The appointment of a contractor was delayed until such time as the designs were more advanced – which has resulted in a reduced level of expenditure incurred in 13/14. | (0.2) |
| Parking Meters | Following objections to the initial proposals the scheme had to be amended and re-advertised before procurement. | (0.1) |

| | | |
|---|---|---|
| Far Gosford Street | Delays negotiating compulsory purchase orders. | (0.1) |
| Coventry & Warks Enterprise and Business Growth | The demand from businesses for grant funding was higher than anticipated and with DCLG approval European Regional Development Fund grant funding was made available to facilitate those grants. | 0.1 |
| Miscellaneous | Net Rescheduling | (0.7) |
| **SUB-TOTAL – Place** | | **(7.5)** |

| | | |
|---|---|---|
| **RESOURCES** | | |
| Strategic ICT | Ongoing and late finishing of projects make up the majority of re-scheduling together with delays relating to the network modernisation. | (0.5) |
| **SUB-TOTAL – Resources** | | **(0.5)** |

| | |
|---|---|
| **TOTAL RESCHEDULING** | **(10.2)** |

## Appendix 6

## Summary Prudential Indicators

| | | Per Treasury Management Strategy 13/14 £000's | Actual 13/14 £000's |
|---|---|---|---|
| **1** | **Ratio of financing costs to net revenue stream:** | | |
| | (a) General Fund financing costs | 35,302 | 34,353 |
| | (b) General Fund net revenue stream | 268,414 | 268,414 |
| | General Fund Percentage | 13.15% | 12.80% |
| **2** | **Gross Debt & Forecast Capital Financing Requirement** | | |
| | Gross debt including PFI liabilities | 403,923 | 390,609 |
| | Capital Financing Requirement (forecast end of 15/16) | 458,928 | 495,117 |
| | **Gross Debt to Net Debt:** | | |
| | Gross debt including PFI liabilities | 403,923 | 390,609 |
| | less investments | -36,117 | -95,381 |
| | less transferred debt reimbursed by others | -18,264 | -18,264 |
| | Net Debt | 349,542 | 276,964 |
| **3** | **Capital Expenditure (Note this excludes leasing)** | | |
| | General Fund | 60,241 | 54,484 |
| **4** | **Capital Financing Requirement (CFR)** | | |
| | Capital Financing Requirement | 458,928 | 407,736 |
| | Capital Financing Requirement excluding transferred debt | 440,664 | 389,472 |
| **5** | **Authorised limit for external debt** | | |
| | Authorised limit for borrowing | 403,847 | 403,847 |
| | + authorised limit for other long term liabilities | 60,812 | 60,812 |
| | = authorised limit for debt | 464,659 | 464,659 |
| **6** | **Operational boundary for external debt** | | |
| | Operational boundary for borrowing | 359,847 | 359,847 |

| | | | |
|---|---|---|---|
| | + Operational boundary for other long term liabilities | 60,812 | 60,812 |
| | = Operational boundary for external debt | 420,659 | 420,659 |
| **7** | **Actual external debt** | | |
| | actual borrowing at 31 March 2014 | | 308,417 |
| | + PFI & Finance Leasing liabilities at 31 March 2014 | | 63,928 |
| | + transferred debt liabilities at 31 March 2014 | | 18,264 |
| | = actual gross external debt at 31 March 2014 | | 390,609 |
| **8** | **Interest rate exposures** | | |
| | Upper Limit for Fixed Rate Exposures | 403,847 | 271,789 |
| | Upper Limit for Variable Rate Exposures | 80,769 | -58,753 |
| **9** | **Maturity structure of borrowing - limits** | **upper limit** | **actual** |
| | under 12 months | 15% | 14.8% |
| | 12 months to within 24 months | 20% | 12.9% |
| | 24 months to within 5 years | 30% | 4.5% |
| | 5 years to within 10 years | 30% | 5.2% |
| | 10 years & above | 100% | 62.6% |
| **10** | **Investments longer than 364 days: upper limit** | 15,000 | 0 |