

QUARTER TWO REVIEW 2010-11 - FINANCIAL PERFORMANCE

1.0 INTRODUCTION

- 1.1 This report sets out the Council's financial performance for 2010-11 at the end of Quarter Two. It summarises the draft revenue and capital forecast outturn positions for services at the Mid Year Review stage. The report particularly focuses upon areas of high financial risk to the Council, and includes updates on the Capital Programme, Treasury Management, Debt, and in-year collection rates for Council Tax and Business Rates.
- 1.2 The report provides an update on the key financial pressures facing the Council, and the remedial actions taken and proposed by services to address the projected overspending. Significant changes from the Remedial Action Plan report to Cabinet on 20 September are highlighted.

2.0 REVENUE BUDGET SUMMARY 2010-11

- 2.1 At the First Quarter Review, it was reported that the Council was facing emerging budget pressures totalling £13.6m. Directors were tasked with identifying remedial measures to alleviate the impact of the pressures. A further report was considered by Cabinet on 20 September in which proposed remedial actions of £6.3m were identified, reducing the projected net overspend to £7.3m.
- 2.2 Table 1 below provides a summary position of the projected outturn positions at a service level at the mid year stage. Overall, services are reporting underlying budget pressures of £18.9m. Following proposed remedial actions of £9.4m, and requests for supplementary funding of £0.8m, the net forecast service overspend is £8.7m.
- 2.3 The projected service net out-turn position has worsened by £3.4m. This is largely due to increases in the projected overspending in Children & Families (£2.8m), and Health and Wellbeing (£0.8m). Remedial measures have increased overall by £3.1m, largely in Adults including the use of £1.5m Supporting People grant, and in Children and Families.
- 2.4 Managers are working to identify any additional remedial action that can be taken to reduce the projected overspend.
- 2.5 Further mitigation of this position is available from centrally held budgets and provisions. There is an unallocated balance on the inflation contingency of £1.4m, and a forecast underspending on interest payable

of £0.6m, as detailed in Section 4. These items reduce the net forecast outturn overspend to £6.7m, or 3.1% of the net service budget.

- 2.6 Despite the level of the reported variance, it should be emphasised that the overall aim of the Council is to manage its resources within budget. Substantial measures have already been identified to reduce the impact of the significant budget pressures. Senior Managers will continue to strive to identify further measures through the use of remedial action plans, and through reviews of corporate funding mechanisms with a view to seeking a balanced outturn position.

Table 1 - Service Revenue Outturn Forecasts

Service	Net Budget £000	Underlying Budget Pressures £000	Proposed Remedial Measures £000	SRE requests from central funding £000	Net Projected Variance from Budget £000	Change from 20 Sept update £000
Children & Families	37,357	8,379	(3,535)		4,844	1,754
Adults	69,606	7,206	(3,813)		3,393	(1,012)
Health & Wellbeing	12,554	1,365	(430)		935	783
Total Adults, Community and Health & Wellbeing	82,160	8,571	(4,243)		4,328	(229)
Environmental	36,059	1,085	(401)	(131)	553	(73)
Safer & Stronger	666	(40)	(55)		(95)	51
Planning & Policy	3,733	(409)	0		(409)	(145)
Regeneration	9,560	848	0	(686)	162	95
Total Places	50,018	1,484	(456)	(817)	211	(72)
Borough Treasurer & Head of Assets	25,459	1,686	(1,143)		543	539
HR&OD	3,132	(131)	0		(131)	(131)
Borough Solicitor	6,361	(458)	0		(458)	(6)
Policy & Performance	8,359	(650)	0		(650)	(500)
Corporate Improvement	399	0	0		0	0
Total Performance & Capacity	43,710	447	(1,143)		(696)	(98)
Centrally held budgets		(2,000)			(2,000)	0
TOTAL SERVICES	213,245	16,881	(9,377)	(817)	6,687	1,355

- 2.7 Cross cutting savings of £2.7m, including procurement savings of £1.8m, have been allocated to services. As indicated in previous reports, only around half of these savings are likely to be delivered in year with the

remainder needing to be re-phased. The forecast service outturn positions take into account the projected achievement or non achievement of these savings.

2.8 In arriving at the service revenue outturn forecasts contained in this report it should be noted that the following appropriations from earmarked reserves, and budget transfers have been taken into account:

(i) Appropriations from Earmarked Reserves

- (a) Invest to Save Reserve - the 2010-11 revenue budget included a planned appropriation of £400k for energy saving matters. Additionally, in-year allocations have been made of £139k for a review of Single Persons Council Tax Discount, £38k for HR redeployment, and £46k for Health & Wellbeing. The Borough Treasurer and Head of Assets has also approved further funding of £588k from the Reserve, which is subject to approval by Cabinet of a request for a Supplementary Revenue Estimate in respect of the Total Transport programme included in this report. A further £440k has been committed for capital programme schemes relating to ICT and Tatton Park. Subject to approval of the Total Transport scheme a balance of £349k will remain in the reserve, as summarised in Table 2 below.

Table 2 - Invest to Save Reserve

	£000	£000	£000
Opening balance			2,000
<u>Less Budgeted allocations</u>			
Energy saving	400		
ICT - capital	150		
Tatton Park – capital	290	840	
<u>Less In year allocations</u>			
Single Persons Discount review	139		
HR redeployment	38		
Leisure review	46	223	
<u>Less: for Approval</u>			
Total Transport project		588	
Total Allocations			1,651
Balance remaining			349

(b) Other significant appropriations from reserves have been made as follows:

- £273k from Corporate Property reserve for Assets
- £200k from Benefits reserve for Revenues & Benefits

(ii) Budget Transfers

Management have discussed matters relating to changing responsibility for a number of budgets. As a consequence, this Mid Year Review report incorporates the following cross-service budget transfers, to ensure that budgets are contained within the appropriate areas of functional responsibility, and resulting in revised budgets for each Directorate:-

(a) £2.2m from Health & Wellbeing to Places for Grounds maintenance

Certain Grounds Maintenance operations have been transferred to streamline business processes and obviate the need for internal recharges between Places and Health & Wellbeing. The figure derives from aggregation of budgets inherited on LGR for operational works, as amended by approved changes in Cheshire East budgets for 2009/10 and 2010/11. Further work is currently underway on the remaining £772k held in Health & Wellbeing and if necessary, a further transfer will be undertaken as part of the Three Quarter Year review.

(b) £918k from Places to Assets for Street Lighting energy

This relates to the “corporate landlord” role of Assets and to facilitate the change to an innovative approach to energy procurement. The figures in this report also reflect the transfer of in –year budget pressures associated with Street Lighting of £125k from Places to Assets.

(c) £235k from HR&OD to Corporate Improvement

(d) £164k from Adults to Corporate Improvement

(e) £578k from Partnerships to Democratic Services for Chief Executive’s Office

3.0 KEY SERVICE REVENUE ISSUES

Key pressures and remedial actions impacting on service outturn forecasts are summarised below.

3.1 Children and Families (£4.9m overspend)

Introduction

At First Quarter Review, Children and Families projected a net overspend of £3.1m, based on underlying budgetary pressures of £5.7m offset by remedial action of £2.6m. At Mid Year Review, the projected

overspend has increased, mainly due to the underlying budgetary pressures increasing to £8.4m. The service has identified detailed remedial measures of £2.5m, together with an estimated £1m of further measures, totalling £3.5m, resulting in a net overspend of £4.9m.

Key Issues

The projected overspend has increased by £2.754m since first quarter review, mainly due to more accurate financial information now being available to identify the full year effect of increasing care costs, direct payments and fostering and adoption allowances. The number of Looked After Children has increased from 370 to 481 since this time last year, which using the average cost of £45k per year, would have added £5.0m onto the care costs in the last 12 months. The long term focus for the service is to reduce new placements wherever possible and review with a view to reducing or stopping some existing placements. The forecast assumes that any new placements will be effectively offset by reductions elsewhere to achieve nil growth overall.

The Transport overspend has reduced from a projected £1.3m overall to £1.1m. Transport for Social Care has increased by £64k, mainly due to increased activity in the Crewe area; however this is offset by a reduction of £237k in Home to School transport. Replanning work including meeting the needs of Special Needs clients through Fleet transport rather than private taxi hire, and a reduction in tendered contracts has resulted in an overall reduction in hired transport costs. Income in relation to the Bus Services Operators Grant received in previous years has offset expenditure on Passenger Fleet. As with Special Needs there has been a major reduction in tendered school contracts for Mainstream Transport.

Dedicated Schools Grant (DSG)

The actual spend on the Individual Schools Budgets will equal budget at year end as schools will retain any carry forward of balances. £1.3m of DSG was retained for additional Individual Pupil funding requests made in year, however already £2.0m of additional budget has been allocated in this way. This overallocation of budget will be offset by underspends elsewhere in DSG funded activity, e.g. maternity, rehabilitation and redundancy budgets.

Catering

The catering service is likely to underspend by £69k, mainly through in house efficiencies being made. £99k of DSG has been made available to the catering service for kitchen refurbishment and it is likely that this will be fully spent. However there is currently a surge in international

wheat prices which may have an adverse impact and this will be closely monitored over the coming months.

Remedial Actions - summary

Detailed remedial actions previously identified have been achieved and have brought the overspend down by £2.535m, mainly due to reductions in staffing costs, topslicing of uncommitted grants and savings offered up by the Youth Offending Service.

This remedial action is £100k less than previously identified as it has not been possible to passport the entire £600k grant reduction over to the Connexions service as had been initially thought.

However, the Departmental Management team are currently working to identify any additional remedial action that can be taken to reduce the projected overspend and have already added a further £1m of remedial measures, bringing the total to £3.5m.

Conclusion

Children and Families are facing constant upward pressure through increasing numbers of children coming into care. Procedures have been put into place to ensure all placements are approved by Senior Managers. The service are reviewing Family Support provided by Children's Centres, Family Centres and Social Work teams with a view to increasing early intervention and prevention, which should reduce the number of children coming into high cost care packages.

Alternative residential provision is also being explored which should reduce the need for high cost external placements. Currently Cheshire East only has provision for 11 residential placements, at Claremont, Broad Street and Wilkinson House. This is not enough for a borough the size of Cheshire East, and means the service has to rely heavily on purchasing external residential placements. Proposals are being explored to provide a further 12 beds within the borough.

Underlying budget pressures are being mitigated by the use of unallocated temporary grant funding.

3.2 Adults, Community & Health and Wellbeing (£4.3m over spend)

Adults Services

The Adults service previously reported a projected underlying overspend of £5.8m. The service have identified additional pressures of £1.4m, mainly relating to the delivery of the cross cutting savings allocated to

the service (£0.7m), reduction in income from the PCT (£0.4m) and increase in bad debt provision (£0.3m).

Extensive remedial actions of £2.8m have been identified and actioned within the service, including £1.5m from the utilisation of Supporting People grant. It is estimated that a further £1m of remedial measures can be achieved.

Overall, pressures of £7.2m are being partly offset by remedial actions of £3.8m, leaving a forecast net overspend of £3.4m.

Conclusion

The service continues to face unprecedented challenge from a financial point of view as it goes through transformation whilst struggling to cope with the growth in demand presented by the unique demographics of the authority.

The Adults budget has been reduced by £7.0m over the 2009/10 and 2010/11 financial years at a time when care costs have grown by £7.9m, creating a gap of £14.9m between the current budget and cost base. Current projections indicate that this gap will be reduced by £10.5m (70%), as a result of remedial actions already identified and being delivered. Further remedial action to reduce the projected overspend of £4.4m is underway, although as care costs are the main cost driver and they are reliant on annual reviews it should be noted only a part year effect reduction can be delivered in 2010/11.

The Adults Departmental Management team are currently working to identify any additional remedial action that can be taken to reduce the projected overspend further.

Health and Wellbeing

The latest Service projection is an overspend of £935k. Further remedial action is being sought to reduce this projected variance.

Budgets of £2.2m relating to responsibilities for Grounds Maintenance have been excluded from the figures reported as this function has now transferred to the Places Directorate.

There are 3 main components for the projected overspend. First, the service has had its budget reduced by £1.1m over the two financial years 2009/10 and 2010/11 in respect of restructuring the service using Voluntary Redundancies (VR). At the Mid Year point in the current year £750k (over two thirds) of this target has been achieved with £350k still remaining. It should be noted that further VR's are still being sought but

that any shortfall in the remaining £350k will roll forward as part of the base budget for 2011/12.

Secondly, there are a number of identified emerging pressures including cross cutting savings not yet deliverable, some income targets which are proving impossible to meet during the current economic climate (e.g. sound recordings in Libraries), vandalism and pressures arising from actions of partners. The Service has successfully implemented remedial action in a number of areas which has alleviated the vast majority of these pressures. Examples of remedial action include increasing fees & charges, for example, within Leisure Centres and freezing spending on the Bookfund within Libraries.

Thirdly, reviews of key facilities are in the process of completion but these have not had the anticipated impact within the current financial year.

Conclusion

The projected overspend at the Mid Year Review stage for 2010/11 for Health & Wellbeing stands at £935k. Further remedial action including a further round of VR's, placing restrictions on staff travel and attempting to identify further reductions in all discretionary areas is underway to try and reduce this overspend.

3.3 Places Directorate (£211k overspend)

Places Directorate had an approved net budget of £48.8m for 2010/11. Following the changes in responsibilities described earlier in the report, budget transfers between Directorates have been affected, resulting in a revised budget of £50.0m.

At the Mid Year Review the Places Directorate is forecasting a net projected variance of £211k (after remedial actions). This represents a reduction of £72k in the reported overspend, which has arisen largely due to the impact of budget transfers to other services, including Street Lighting, and minor improvements in projected pay costs offset by reduced car parking income.

Key Service Issues

The underlying pressures for the Places Directorate currently show a net overspend before remedial actions of £1.484m. This is primarily due to:

- pressures on pay budgets in Environmental Services
- exceptional inflation on waste and bus contracts (due to fuel price increases)
- achieving full realisation of transport and corporate savings targets

- car parking income
- “Total Transport Project” initiation costs of £588k to support the invest to save project – these costs are to be met from the Invest to Save reserve (see SRE request below) and the project is intended to realise in excess of £5m in savings (related proposals are being incorporated into the business planning process)

Remedial Actions

The Places Directorate have identified remedial actions totalling £456k. The remedial actions are:

- Environmental Services: Review of structures/ overtime and agency management (£301k) and highways reduction (£100k)
- Safer Stronger Communities: Additional income in regulatory services (£10k) and new residents car parking schemes income (£45k).

SRE Requests from Central Funding

The Places Directorate makes two supplementary revenue estimate requests. The first is in respect of the “Total Transport Project” (Invest to Save) for £588k, as approved by the Borough Treasurer & Head of Assets in consultation with the Portfolio Holder for Resources. The second relates to a call on the inflation contingency for exceptional inflation in Household Waste Recycling Centres (£100k) and fuel inflation within bus contracts (£129k).

Conclusion

The Places Directorate faces a challenging second half-year, particularly as we approach the winter period. The Directorate continues to seek for further remedial actions with a view to containing pressures within budget by year-end.

3.4 Performance & Capacity (£696k underspend)

Borough Treasurer & Head of Assets

The overspend has improved by £204k since first quarter, following remedial actions. However, two emerging pressures have arisen since first quarter which relate to ICT Shared Services and Street lighting. At first quarter ICT shared services reported net nil as insufficient information was available to produce a forecast. We are now aware of a potential £857k budget pressure, though further work ensuring that costs are being shared correctly between the two authorities and capitalisation of expenditure should reduce this to £457k. In relation to Street Lighting, the transfer of this budget from Places to enable the corporate

management of energy contracts results in a £125k budget pressure moving to the Assets service.

HR & OD

A £131k improvement since first quarter is due to two factors. Firstly the OHU shared service have revised the structure that they will be implementing in 2010/11 and secondly it is due to the gradual introduction of Corporate Apprentices throughout the financial year, and a part-year impact of Management Trainees.

Borough Solicitor

No change from first quarter. However the significant budget pressure of legal services locum costs have been offset by vacant scrutiny posts being carried for the remainder of the financial year, civic expenditure being reduced considerably and the Chief Executive budget delivering an underspend. A carry forward request of £204k for election costs to be made at year end will reduce the available underspend to £254k.

Policy & Performance

Policy & Performance services have carried vacancies throughout the year and as a result are anticipating savings of approximately £650k for the full year. This is an increase of £500k over the £150k under spend declared in the first quarter review mainly because planned recruitment has been stopped to help support the Councils overall financial position.

Corporate Improvement

Corporate Improvement is forecasting a balanced outturn position.

4.0 CENTRAL BUDGETS AND RESERVES

- 4.1 The 2010-11 budget contained a central inflation contingency provision of £1.6m to cover increases in prices during the year. It is proposed that £0.2m of this be allocated to the Places Directorate to meet unavoidable inflationary increases on Waste and Transport contracts in 2010-11. However it is proposed not to allocate the remaining balance of £1.4m out to services, but to retain it centrally and set aside to partly offset total service overspending.
- 4.2 As explained in the Treasury Management section below an estimated £0.6m saving in interest payable should arise following the rescheduling of the Council's external debt.
- 4.3 Taken together with the projected service overspend of £8.7m (including additional projected remedial measures), these two items above have

the effect of reducing the projected outturn variance by £2m to £6.7m. Taking this into account with other budgeted and known factors, the potential overall impact on the Council's level of general reserves in 2010-11 would be to reduce balances to around £7.9m as summarised in Table 3 below.

Table 3 - Impact on General Reserves

	£m	£m
Opening Balance at 1 April 2010		10.2
Planned Contribution to reserves	4.3	
Fleming VAT claims	<u>1.6</u>	5.9
Transfer to VR Reserve	-1.5	
Outturn Impacts (see 4.3 above)	<u>-6.7</u>	-8.2
Forecast Closing Balance at 31 March		7.9

- 4.4 A review of earmarked reserves, and receipts in advance held on the balance sheet, is currently being undertaken to identify whether there are any potential surpluses that can be applied to offsetting the service overspend in 2010-11.

5.0 REVENUE BUDGET - CONCLUSION

- 5.1 Services are reporting an increased level of underlying budget pressures, particularly in Children and Families, and in Adults and Health & Wellbeing. Despite identifying significant remedial actions in the region of £7m to £8m, the scale of the forecast pressures on budgets in these services would not seem to be capable of being alleviated without recourse to offsetting underspendings in other service areas and from within corporate budgets and provisions.
- 5.2 Further impetus will be required by Directors and Heads of Service to identify and implement remedial actions if the projected level of service overspending is to be significantly reduced in 2010-11.
- 5.3 Some limited funding from use of earmarked reserves, and other central provisions has been identified, but the presumption must remain that there can be no recourse to general reserves to fund overspending in 2010-11 given the substantial reduction in the level of balances during 2009-10 to £10.2m. Work is ongoing to assess further opportunities for savings against corporate and centrally held budgets.
- 5.4 The overall aim of the Council is to manage its resources within budget, and therefore Senior Managers will continue to strive to identify further measures through the use of remedial action plans, and through reviews

of corporate funding mechanisms with a view to seeking a balanced outturn position.

- 5.5 Overall, services have identified remedial measures totalling £7.4m to mitigate the projected 2010-11 overspending. However, around £4m of these are temporary measures affecting 2010-11 only, and therefore only £3m are of a longer term nature realising ongoing savings in 2011-12 onwards. Measures identified for 2011-12 and beyond need to be incorporated in Business Planning assumptions. Where measures only have a temporary impact in 2010-11, the value of these will need to be added onto the savings targets for next year, and subsequent years.

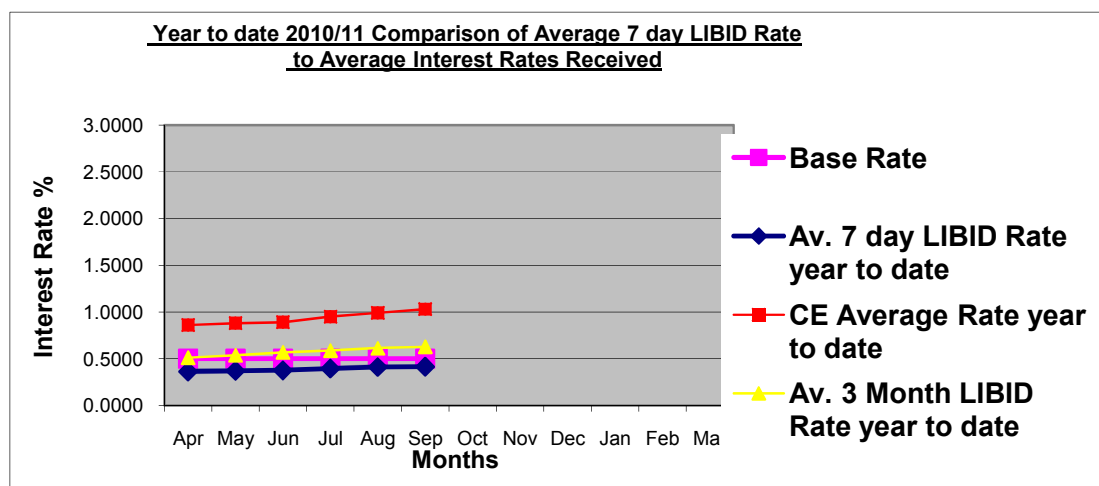
6.0 TREASURY MANAGEMENT

- 6.1 Investment income at the mid year point is £12k lower than budgeted. Whilst this is an improvement on the Quarter 1 figure of £40k below budget, falling cash balances towards the end of the financial year could result in a small budget shortfall for the year of around £20k. The original budget of £1.12m was based on estimated average balances of £90m at 1.25% as it was anticipated that interest rates would start to rise mid way through 2010/2011. Based upon the current economic forecasts, investment interest rates are not expected to increase before the end of the financial year. However, opportunities are being taken to invest for longer periods for higher than budgeted returns wherever possible. Any budget shortfall on investment interest will be more than compensated by savings on external interest payments.

- The average lend position (the 'cash balance') including fund manager up to the end of the second quarter was £105.8m.
- The average interest rate received on in house investments up to the end of the second quarter was 1.11%
- The average interest rate received on the externally managed Investec fund up to the end of the second quarter was 0.86%

- 6.2 The Council's total average interest rate up to the end of quarter 2 in 2010-11 was 1.03%. This is favourable when compared to the London Inter-bank Bid Rate for 7 days at 0.42% but below the budgeted outturn of 1.25%. The base rate remained at 0.50% for the quarter.

Comparator	Average Rate Q2
Cheshire East	1.03%
LIBID 7 Day Rate	0.42%
LIBID 3 Month Rate	0.63%
Base Rate	0.50%



6.3 The externally managed funds by Investec are being recalled as these particular investments are no longer generating higher returns than we can generate ourselves. Funds are being recalled as investments within the fund mature; £5m was recalled in September and the remaining £8.4m is due to be recalled in January and March 2011. Consideration is currently being given to alternative pooled funds managed by Investec which are better placed to generate higher returns in a low interest rate environment.

6.4 All investments have been made in accordance with limits specified in the Treasury Management Strategy. The Council's authorised counterparty list as advised by Arlingclose Treasury Advisors, which is kept under continual review, is principally –

- Money Market Funds – AAA rated
- UK Banks & Building Societies AA rated (covered by UK Government guarantee):

Bank of Scotland Plc	Barclays Bank Plc
Clydesdale Bank (includes Yorkshire Bank)	HSBC Bank Plc
Lloyds Bank Plc	Nationwide Building Society
Royal Bank of Scotland Plc	Santander (UK) Plc

- Co-operative Bank (holder of bank accounts for Cheshire East)
- Foreign Banks – Named list of minimum AA rated banks

6.5 The Council currently has debt outstanding of £135.5m of which £118.5m is from the PWLB and £17m is in the form of market LOBO loans. In July 2010 the opportunity was taken to restructure £50m of the PWLB debt by replacing a number of maturity loans which had an

average rate of 4.22% and 32 years left to run with a new loan repayable in equal instalments over 10 years at a rate of 2.35%.

- 6.6 The restructuring did incur net premium charges of £433k but, after allowing for this, savings over the next 10 years are forecast at £4.47m of which around £600k will be achieved in 2010/2011. The restructuring exercise has brought forward the maturity profile of the PWLB debt so there is the risk that the refinancing of maturing debt will affect the forecast level of savings. If maturing debt can be refinanced at rates below 4.21% then savings could be increased further although if maturing debt is refinanced at rates above 4.21% then savings would be reduced. Following the Comprehensive Spending Review, the Government has increased the cost of new borrowing from the PWLB. The current PWLB rate (as at 21/10/10) for a new maturity loan for 32 years is 5.06%. However, PWLB rates lower than 4.21% are still available for maturity loans up to 10 years and for Equal Instalments of Principal (EIP) loans up to 21 years. There is also the potential to refinance from other lenders at cheaper rates.

7.0 COLLECTION RATES

- 7.1 The Council Tax collection rate for the second quarter is 59.25%, which maintains last year's figure. However, collection rates will be challenged during the next quarter as the new Revenues system is implemented. The National Non-Domestic Rates collection rate for the second quarter is 61.15%, which is 2.6% higher than last year. Improved working practices through team merger have assisted processing times, and improved the collection rate by reducing account debt.

8.0 DEBT MANAGEMENT

- 8.1 Total outstanding Invoiced Debt at the end of September 2010 was £9.8m which includes £3.9m of debt not yet due for payment, i.e. still within the payment terms. The total amount of service debt outstanding over 6 months old amounts to £1.5m which is £0.3m higher than the position at 31 March. Services currently have debt provisions of £1.6m to cover this debt in the event that it needs to be written off.
- 8.2 An analysis of the invoiced debt provision by directorate is provided in Table 4.

Table 4 - Invoiced Debt

Directorate/Service	Total Outstanding Debt as at 30 th September £000	Total Debt Over 6 months old £000	Bad Debt Provision £000
Children & Families	1,203	150	150
Schools & Catering	27	9	9
Total Children & Families	1,230	159	159
Total Adults, Health & Wellbeing	3,496	964	964
<u>Places</u>			
Environmental Services	489	142	73
Safer & Stronger Communities	122	24	11
Planning & Policy	77	30	13
Regeneration	68	5	3
Total Places	756	201	100
<u>Performance & Capacity</u>			
Borough Treasurer & Head of Assets	439	195	297
HR & OD	13	0	3
Borough Solicitor	2	0	35
Policy & Performance	0	0	0
Total P&C	454	195	335
Total Debt & Provisions	5,936	1,519	1,558

- 8.3 Table 4 excludes debt of £2.1m relating to Benefits overpayments. Instalment plans and recovery strategies are in place to achieve recovery rates of between 60% - 70% of the debt, in line with previous performance. This debt is covered by a separate bad debt provision. Work is ongoing to understand the debt position as recorded in several legacy systems. When the new Revenues and Benefits system goes live shortly, this information will be consolidated into one system, and improve the availability of data for reporting purposes.

9.0 CAPITAL PROGRAMME

- 9.1 At the mid-year review stage the Council is forecasting expenditure of £93.763m in 2010-11 against an Approved Budget of £116.261m for the year. Officers have undertaken a fundamental review of the capital programme to ensure that it only includes schemes that fulfil the Council's priorities for service delivery. As a result of this review Officers are proposing a number of deletions and deferrals that would align the Approved Budget more closely with forecast expenditure. These deletions and deferrals are detailed in Appendices 4a and 4b for

consideration by Members. If accepted, these deferrals and deletions would reduce the Approved Budget 2010-11 by £16.158m

- 9.2 Table 5 shows an analysis by Directorate of the in-year Approved Budget for 2010-11, and forecast expenditure for 2010-11 and the three following years to 2013-14.

Table 5 – Capital Expenditure Forecasts

Department	In Year Approved Budget	Forecast Expenditure			
	2010-11 £000	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000
Adults, Community and H&W					
New Starts	773	807	450	400	0
Committed schemes	8,474	7,376	2,800	0	0
	9,247	8,183	3,250	400	0
Children & Families					
New Starts	9,330	5,111	8,997	1,599	0
Committed schemes	24,870	23,229	3,538	816	0
	34,200	28,340	12,535	2,415	0
Places					
New Starts	15,375	13,824	13,657	9,359	295
Committed schemes	32,225	23,512	3,192	4,597	4,564
	47,600	37,336	16,849	13,956	4,859
Performance & Capacity					
New Starts	9,177	9,097	2,285	1,135	824
Committed schemes	16,037	10,807	5,354	270	270
	25,214	19,904	7,639	1,405	1,094
Total New Starts	34,655	28,839	25,389	12,493	1,119
Total Committed schemes	81,606	64,924	14,884	5,683	4,834
Total Capital Expenditure	116,261	93,763	40,273	18,176	5,953

- 9.3 The programme consists of on-going schemes started in previous years (£81.606m) and new starts (£34.655m). The new starts include a number of schemes which form part of a 'core' programme, including essential maintenance, Local Transport Plan (LTP) schemes within Environment, and Devolved Formula Capital (DFC) allocations for schools. New schemes have been approved by Members as meeting the Council's priorities.

9. 4 The programme is funded from both direct income (grants, external contributions, linked capital receipts), and indirect income (borrowing approvals, revenue contributions, capital reserve, non-applied receipts). A funding summary is given below in Table 6.

Table 6 – Funding Sources

Funding Source	Forecast Expenditure			
	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000
Grants	41,514	24,583	12,870	4,140
External Contributions	5,165	1,383	160	0
Linked/Earmarked Capital Receipts	11,919	4,161	710	0
Supported Borrowing	16,889	3,289	1,050	424
Non-supported Borrowing	5,247	3,056	270	270
Revenue Contributions	2,454	888	250	295
Capital Reserve	10,575	2,913	2,866	824
Total	93,763	40,273	18,176	5,953

9. 5 Appendix 1 shows detail of the individual schemes that make up the disclosures in Table 5 and Table 6.
9. 6 Appendices 2a and 2b list proposals for Supplementary Capital Estimates (SCE) and Virements up to and including £500,000 that Cabinet is requested to note.
9. 7 Appendix 3a lists proposed budget reductions and Appendix 3b lists proposed budget deferrals; both these appendices require Cabinet approval. Note that Appendix 1 already reflects the effect of the proposed reductions and deferrals in forecast expenditure, but that the Approved Budget will not be amended until the proposed budget reductions and deferrals have been approved.

Key Service Capital Issues

9. 8 All Services are faced with reduced levels of capital funding from the Government. Some of the impacts are known and are outlined below.

Adults, Community and Health & Wellbeing

9. 9 Sandbach United Football Complex
- | | | |
|-------------------------|---|----------------|
| In-year Approved Budget | - | £2.188m |
| Forecast Outturn at MYR | - | <u>£1.212m</u> |
| Underspend | - | <u>£0.976m</u> |

There were delays in receiving confirmation of external funding, which in turn delayed the award of the contract. This has now been obtained and the work is due to commence in January 2011. This will cause the work flow to be reprofiled to complete by August 2011. An SCE for £20k is currently proposed.

Children & Families

9. 10 The Government has advised the Council of specific cuts to the 14-19 Diploma - Targeted Capital Funding and the Extended Schools programmes, as described in Appendix 3a. Proposed deferrals totalling £4.651m arising from the Fundamental Review are listed in Appendix 3b. The Directorate is also faced with uncertainty over the possible effects of the Government's new Free Schools initiative.

9. 11 Devolved Formula Capital

Total Approved Budget, 2010-11 allocation	-	£5.770m
In-year Approved Budget	-	<u>£1.605m</u>
Carry-forward to future years	-	<u>£4.165m</u>

This project is a grant allocation from the Department for Communities and Local Government. Each school has a share of this funding which they can use on a variety of capital projects or save multiple allocations to undertake a large project. The review taken at Mid Year indicates that the schools are intending to spend over several years. The terms and conditions of this grant funding ring fence the funds to schools. It is not available to finance expenditure on the Council's own capital assets.

Places

9. 12 Proposed deletions totalling £1.932m arising from the Fundamental Review are listed in Appendix 3a. Proposed deferrals totalling £4.525m arising from the review are listed in Appendix 3b. Variances on specific schemes are considered below:

9. 13 Queens Park Restoration

In-year Approved Budget	-	£3.026m
Forecast Outturn at MYR	-	<u>£2.671m</u>
Underspend	-	<u>£0.355m</u>

There will be slippage into 2011-12 of some £500k. There may be risk of overspend on the overall project budget in the order of £120k, but options to address this (e.g. using an existing grounds maintenance external contribution and/ or reducing expenditure on footpaths) are being considered.

9. 14	<u>Alderley Edge By-pass Scheme Implementation</u>		
	In-year Approved Budget	-	£16.124m
	Forecast Outturn at MYR	-	<u>£12.918m</u>
	Underspend	-	<u>£ 3.206m</u>

As the project nears the end of its construction phase, the probable extent of 2010-11 costs can be confidently predicted. There will be slippage to 2011-12.

9. 15	<u>Private Sector Assistance Initiative</u>		
	In-year Approved Budget	-	£0.984m
	Forecast Outturn at MYR	-	<u>£0.492m</u>
	Underspend	-	<u>£0.492m</u>

This will be deferred to 2011-12 assuming that Government grant funding is still available after the current programme of cuts.

9. 16	<u>Crewe Town Squares – Lyceum Square</u>		
	In-year Approved Budget	-	£0.798m
	Forecast Outturn at MYR	-	<u>£0.468m</u>
	Underspend	-	<u>£0.330m</u>

Revised forecast figures are now based on the construction tender figures which are lower than first thought, and also on progress on site with the construction works. However, works are still under way on site and although this prediction is based on the best currently available information it is probable that final outturn figures may vary.

9. 17	<u>Poynton Revitalisation</u>		
	In-year Approved Budget	-	£0.750m
	Forecast Outturn at MYR	-	<u>£1.500m</u>
	Overspend	-	<u>£0.750m</u>

Additional funding of £750k is required 2010-11 to match a changed funding profile for Construction Phase 1. The overall funding for the project remains the same at £3.5m. The funding requirement originally identified as £650k in 2012-13 is now reduced to nil.

9. 18 In addition to the items described above, the main issue facing the Directorate is the future of allocations of Local Transport Plan (LTP) grant funding, in terms of impact on capital maintenance of the highway network and investment in new infrastructure developments. The implications of the recent Comprehensive Spending Review on highways and transport spending are being reviewed, but the detail, particularly in relation to specific schemes, will not be clear for some time. For example, it is currently understood that whilst Crewe Green Link Road is in the DfT's forward plans, the new road planned for the south-east of Manchester (known as the SEMMMS partnership project) is not – we

await confirmation of the position. The development of these schemes, or otherwise, has implications for realisation of our strategic plans locally and our influence, regionally.

Performance & Capacity

9. 19 Building Maintenance funding As reported at outturn 2009/10 the continued uncertainty of future funding causes significant difficulties in the management of the maintenance programme. To maximise efficiencies and value for money, a robust funding stream is vital to ensure the quality of our buildings and the reduction of the maintenance backlog. Procurement and specification of large complex boiler / roof / refenestration programmes have significant lead times; if funding is reduced then the result will be a significant waste of resources for the authority. Failure to provide a guaranteed year-on-year maintenance fund will result in the long term dilapidation of the property asset, an increase in Health and Safety issues, and increased reactive maintenance with the resultant resource implication. Reactive maintenance is resource intensive and provides significantly reduced value for money for the Council.
9. 20 Proposed deletions totalling £2.415m arising from the Fundamental Review are listed in Appendix 3a. Proposed deferrals totalling £2.0m arising from the review are listed in Appendix 3a. Variances on specific schemes are considered below:
9. 21 Oracle Optimisation
- | | | |
|-------------------------|---|----------------|
| In-year Approved Budget | - | £0.990m |
| Forecast Outturn at MYR | - | <u>£1.486m</u> |
| Overspend | - | <u>£0.496m</u> |

The Oracle R12 programme team has been tasked with upgrading the entire Oracle estate for CEC from version 11.5.10 to R12, and this is having a significant impact across all areas of HR, Payroll, Income, Procurement, Finance and Reporting. This is a major change, which is being implemented in partnership with Cheshire West & Chester. The current Oracle release falls out of premier support from November 2010, and failing to implement the upgrade would leave both Councils significantly exposed in the event of a systems failure. The upgrade programme also offers an opportunity to implement new and enhanced functionality which will improve business efficiency and the prospects for future savings, which are being factored into the 2011/14 Business Planning proposals. Significant compliance and training issues which are compromising optimisation of the Oracle platform and associated business processes, will also be tackled as part of the upgrade programme, which has a planned go-live date in January 2011.

Costs in 2010/11 are projected to exceed the original forecast due to an increase in the amount of preparatory work required to bring the current Oracle

platform, and associated supporting infrastructure up to the required level for the upgrade. Substantial backfill costs have also been incurred to allow staff in the ICT Shared Service to be seconded to the programme on a full time basis, which is essential if the planned go-live date is to be achieved. External input has also been commissioned from Price Waterhouse Cooper (PWC) to support technical design and build, including a significant number of non-standard components (e.g. reports, interfaces, customisations and workflows), all of which need to be individually reviewed, tested and potentially reconfigured to ensure R12 compliance.. The projected overspend will be funded by rephasing planned spending in future years, to avoid any overrun against the total approved provision included in the current capital programme.

9. 22	<u>Farms Estates Reorganisation & Reinvestment</u>		
	In-year Approved Budget	-	£1.385m
	Forecast Outturn at MYR	-	<u>£0.034m</u>
	Underspend	-	<u>£1.351m</u>

Capital spending / investment has been limited, reflecting the delayed disposals programme, a very limited response from tenants in relation to NVZ (nitrate-vulnerable zone) work and limited movement by tenants partly in anticipation of the development of management policy objectives resulting from the ongoing service review.

9. 23	<u>Office Accommodation Strategy</u>		
	In-year Approved Budget	-	£7.409m
	Forecast Outturn at MYR	-	<u>£5.409m</u>
	Underspend	-	<u>£2.000m</u>

The current proposal is to delay work on the Old Town Hall in Macclesfield until 2011/12 so that there is no disruption to the town during the 750th Charter celebrations. The necessary planning consents and preparation works will continue in order that refurbishment work can commence in a timely manner after the final event which takes place in September 2011.