

FINANCIAL STABILITY**GOVERNMENT GRANT FUNDING OF LOCAL EXPENDITURE**

1. Cheshire East receives two main types of Government grants, formula grant and specific grants. In 2011/2012 Cheshire East Council's formula grant will be £70.3m. Specific grants were budgeted to be £373.8m based on Government announcements to February 2011, split between non-ringfenced (£125.7m) and ringfenced (£248.1m). Spending in relation to ringfenced grants must be in line with the purpose for which it is provided.
2. The table below is a summary of the budgeted and updated position for all grants in 2011/2012. A full list of grants is provided at Appendix 1.

Table 1 – Summary of Grants to date

	Original Budget 2011/12 £m	Final Settlement 2011/12 £m	Variance 2011/12 £m
Formula Grant			
Revenue Support Grant	16.6	16.6	0.0
Business Rates	53.7	53.7	0.0
Specific Grants			
Ringfenced Grants	248.1	232.7	(15.4)
Non Ringfenced Grants	125.7	128.7	3.0
Total Government Grant Funding	444.1	431.7	(12.4)

3. Ringfenced grants have reduced by £15.4m. This is made up of a reduction of DSG £13.3m and Sixth form grant £4.1m due to a number of schools converting to Academy status. Funding for academies is passported to them through the Young Peoples' Learning Agency, and not the Authority so it does not impact on the budget position. There has also been the introduction of pupil premium grant of £2.1m for 2011/2012 to offset this reduction.
4. Non-ringfenced grants have increased by £3.0m. This includes the introduction of the New Homes Bonus grant of £0.9m, Winter Impact grant of £1.6m and various other small increases in the final settlement. Increases in non-ringfenced grants are being held corporately and services have been invited to bid for the additional funds by way of Supplementary Revenue Estimate (SRE) requests as part of the reporting process.
5. Services have requested SREs of £2.2m to be funded from additional grants received by the Council, which if approved would leave a balance of £0.8m of additional grant to be added to general reserves.

COLLECTING LOCAL TAXES FOR LOCAL EXPENDITURE

Council Tax

6. Budgeted income from council tax for the year is £178.7m. This figure may vary slightly during the year if exemptions are granted, the number of discounts change or payment levels vary. The following table shows the expected income to date and the actual income to date.

Table 2 – Council Tax received compared to budget

	Council Tax Due to end June 2011 £m	Actual Received to end June 2011 £m	Variance to end June 2011 £m
Council Tax	53.6	53.9	0.3

7. The table shows that Cheshire East are on course to collect the full amount needed; there is a variance of 0.15% above the expected collection rate to date.

National Non Domestic Rates

8. Table 3 below shows the expected collection amount for the first quarter of 2011/2012 in Cheshire East and the total collected to date.

Table 3 - NNDR received compared to budget

	NNDR Due to end June 2011 £m	Actual Received to end June 2011 £m	Variance to end June 2011 £m
NNDR	39.5	40.1	0.6

9. The actual collection rate to the end of June is 0.49% above the expected position.

CENTRAL ADJUSTMENTS

Capital Financing Costs

10. The capital financing budget includes the amount charged in respect of the repayment of outstanding debt and the amount of interest payable on the Council's portfolio of long term loans. These budgeted costs are partly offset by the interest the Council anticipates earning from temporary investment of its cash balances during the year.
11. In 2010/11 the Council was able to borrow from internal cash balances to fund the capital programme and therefore no external borrowing was required. Opportunity

was also taken to restructure £50m of debt which will generate savings over the next ten years of £4.47m of which £0.8m will be achieved in 2011/12. The savings on interest costs have already been reflected in the net budget for 2011/12 of £13.9m. Due to slippage in the capital programme in 2010/11 the amount required for the repayment of debt will be lower than forecast resulting in a saving in the budget of £700,000.

Treasury Management

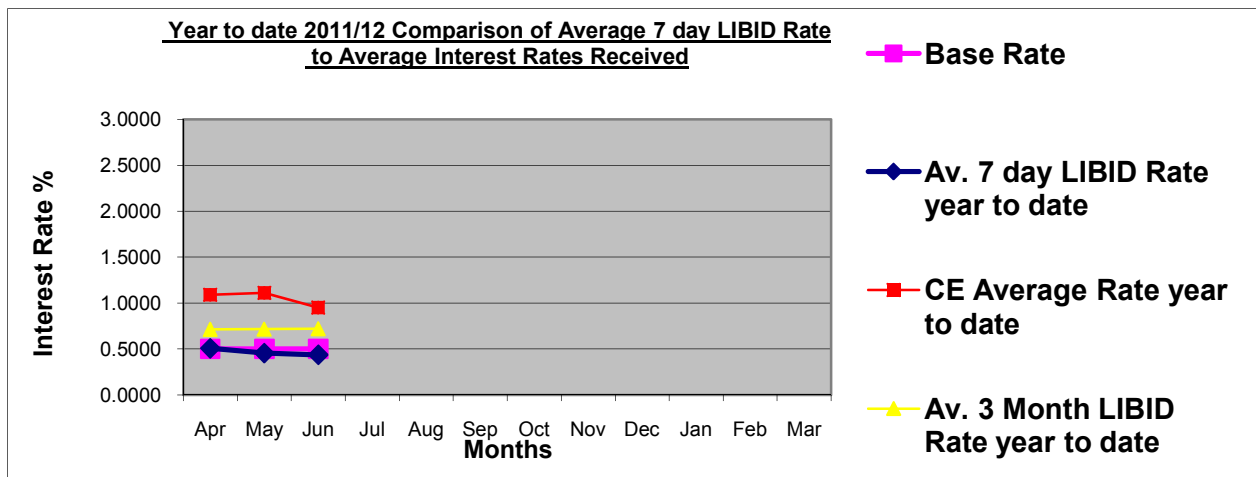
12. Investment income is currently £20,000 lower than budgeted. The original budget of £0.8m was based on falling balances available for investment and interest rates starting to rise mid way through 2011/12. Based upon the current economic forecasts, investment interest rates are not expected to increase until nearer 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 should be compensated by savings on external interest payments.

- The average lend position (the 'cash balance') including fund manager and legacy balances up to the end of the first quarter was £75.8m.
- The average interest rate received on in house investments up to the end of the first quarter was 1.12%
- The average interest rate received on the externally managed Investec fund up to the end of the first quarter was -0.82%. This represents a fall in value.

13. The Council placed £20m with Investec on 27th May 2011 for them to manage in pooled funds. There are two investment models which are exposed to different degrees of risk and volatility with £10m invested in each. During the past 12 months these funds have performed well but during June 2011 concerns over European funding issues had a negative impact on the markets resulting in a dip in the value of these funds. The expectation is that these funds will increase in value of the next few months.

14. The Council's total average interest rate up to the end of quarter 1 in 2011-12 was 0.95%. This is favourable when compared to the London Inter-bank Bid Rate for 7 days at 0.44%. The base rate remained at 0.50% for the quarter.

Comparator	Average Rate Q1
Cheshire East	0.95%
LIBID 7 Day Rate	0.44%
LIBID 3 Month Rate	0.72%
Base Rate	0.50%



15. 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
Standard Chartered Bank	

Co-operative Bank (holder of bank accounts for Cheshire East)

Foreign Banks – Named list of minimum AA rated banks

Central contingencies

Pay, Prices and Pensions Inflation

16. The 2011-12 budget contains contingency provisions to meet the potential impact of general inflation on service budgets, and to meet estimated costs of increases in Employer National Insurance and Pensions contributions. It is estimated that around £2.1m of these contingencies is potentially available to mitigate service overspending.

Severance and relocation costs

17. Actuarial charges relating to voluntary redundancies totalling £3.9m have been allowed for in 2011/2012. It is estimated that the actuarial charges will be broadly in line with the provision.

18. The voluntary redundancy scheme is continuing into 2011/2012 but the costs are now being funded by individual services rather than from a corporate reserve so will need to be met from existing service budgets.
19. It is anticipated that the provision of £0.3m made in the budget to meet continuing relocation costs arising from LGR will be fully required.

Management of Council Reserves

20. The Council Reserves Strategy 2011/2014 states that the Council will maintain reserves to protect against risk and support investment. In line with the Strategy, the Council intends to increase the level of reserves by £5.1m in 2011/2012.
21. Due to the better than expected outturn position for 2010/2011 the opening balance of the reserves has increased from £6.7m to £12.5m.
22. There is also a projected contribution from Earmarked reserves of £1.9m. The 2011-12 Reserves Strategy included an estimated £2.3m to be returned to general balances from earmarked reserves which were deemed not to meet statutory or essential criteria. Following the 2010-11 final outturn, services have re-assessed the status of these specific earmarked reserves, and have identified £0.4m shown in Table 4 and detailed below which they require to be retained as earmarked reserves. This would reduce the return to balances to £1.9m as included in the forecasts below.

Table 4 - Earmarked Reserves not to be returned to Balances

Directorate / Service	Earmarked Reserve	£000	£000
Adults	Section 117 claims		133
Places - LDF	Local Development Framework (part)		40
	} Housing Strategy (part)	26	
	} Streetscape	31	
Places - Other	} People into Jobs	57	
	} Recession Task Group	38	
	} Climate Change	<u>67</u>	219
TOTAL			392

- Section 117 claims – £133k required to meet potential claims from mental health patients who were entitled to free aftercare on their discharge, but who had been charged. There is already a shortfall in the current provision for known claims, which if not funded from this reserve will need to be met from the revenue budget.

- Local Development Framework – whilst the majority of the £292k reserve has been returned to balances, £40k is to be retained and utilised in 2011/12 for assessing deliverability of potential growth sites.
- Places Other – £219k required to meet ongoing planned policy objectives. The expenditure against these items has been incurred or is planned for 2011-12 and is not currently included in the FQR forecast out-turn, therefore if they are not funded from these reserves they will need to be met from the revenue budget.

23. The impact of the service outturn forecast is to reduce balances by £5.7m. However this can be mitigated by £3.6m of service related items contained within central adjustments above, resulting in a net service impact of £2.1m as follows:

	£m
Service Outturn	-5.7
Contingencies	2.1
Capital financing	0.7
Grants	<u>0.8</u>
Total	<u>-2.1</u>

24. The potential impact on these items on the level of General Reserves is shown in Table 5 below.

Table 5 – Change in Reserves Position

	£m	£m
Opening Balance at 1 April 2011		12.5
Planned Contribution to reserves	5.1	
Fleming VAT claims	0.7	
Contribution from earmarked reserves	1.9	
Other	<u>0.2</u>	7.9
Service Outturn Impacts	<u>-2.1</u>	-2.1
Forecast Closing Balance at 31 March		18.3

25. In addition to the above movements on general reserves, it should be noted that the Council has approval to capitalise up to £3m of Voluntary Redundancy costs in 2011-12, although no decision has yet been made on whether to take this up. If agreed, this would effectively spread the £3m cost over a number of years, with a resultant reduction in the impact on revenue budgets.

26. However, within the above forecasts, services are facing challenges in delivering planned savings, and there is a risk that a significant number of savings proposals included within the 2011-12 budget will not be fully achieved. Services have also identified further potential emerging pressures which have not been factored into the forecasts. At this stage of the year therefore the above forecast positions need to be treated with caution.