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# CABINET
# 2010/11 BUDGET UPDATE

**DATE:** **TUESDAY 9 FEBRUARY 2010**
**TIME:** **2.00 PM**
**PLACE:** **COUNCIL HOUSE, PLYMOUTH**

**Members –**
Councillor Mrs Pengelly, Chair
Councillor Fry, Vice Chair
Councillors Bowyer, Brookshaw, Jordan, Michael Leaves, Monahan, Ricketts, Dr. Salter and Wigens

***The attached report was circulated at the Cabinet meeting.***

**BARRY KEEL**
CHIEF EXECUTIVE

## CABINET

**5. CHAIR'S URGENT BUSINESS** **(Pages 1 - 12)**

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

2010/11 Budget Update

# Agenda Item 5

**CITY OF PLYMOUTH**

| | |
|---|---|
| **Subject:** | 2010/11 Budget Update |
| **Committee:** | Cabinet<br>Overview and Scrutiny Management Board |
| **Date:** | Cabinet - 9 February 2010<br>Overview and Scrutiny Management Board –<br>15 and 17 February 2010 |
| **Cabinet Member:** | Councillor Bowyer |
| **CMT Member:** | Director for Corporate Support |
| **Author:** | Sandra Wilson, Corporate Accountancy and Finance Manager |
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| **Ref:** | SW |
| **Part:** | I |

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**Executive Summary:**

This report has been prepared to update Cabinet on a number of issues noted as outstanding in the budget papers.

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**Corporate Plan 2010-2013**

The budget is central to the successful delivery of the Corporate Plan, which is also being presented for consideration and approval.

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**Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land**

Once approved the 2010/11 budget will become the base year for the Medium Term Financial Strategy.

**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.**

Not applicable

**Recommendations & Reasons for recommended action:**

1. The following amounts be capitalised in 2009/10

    - Redundancy pension strain payments totaling a maximum of £2m
    - Potential Icelandic Bank Losses totaling £5.8m

2. Cabinet approve the increase to the capital programme of £7.8m in 2009/10.

3. Cabinet note the increased capital financing requirement and approve that £2m be met from capital receipts and £5.8m from temporary borrowing.

4. Cabinet note the impact on the revenue budget on 2010/11 and request officers to report to full Council on 1 March 2010 on options to reduce the revenue budget spending plans to match anticipated resources.

5. An additional transfer to the pension fund of up to £7m be considered prior to year end subject to identification of capital resources.

6. Cabinet recommend to full Council

    (a) The Authorised Borrowing limits of £347m, £337m and £324m for the period 2010/11 to 2012/13;

    (b) The Operational Boundary of £295m, £295m and £293m for 2010/11 to 2012/13;

    (c) The Prudential Indicators as now set out in the attached Appendix;

    (d) The statutory borrowing limits for 2009/10 be amended as follows:

    - Authorised Limit - £495m
    - Operational Boundary - £465m

7. A virement of £0.425m be approved from the Council's general contingency in 2009/10 to the Carefirst project.

**Alternative options considered and reasons for recommended action:**

None

**Background papers:**

Budget papers to Cabinet 9 February 2010.

**Sign off:**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fin | **CorpF 900014** | Leg | **TH0001** | HR | **MG 09/02 /10** | AM | | IT | | Strat Proc | |
| Originating SMT Member Malcolm Coe | | | | | | | | | | | |

**Report of Director for Corporate Support to Cabinet 9 February 2010**

**2010/11 Budget update**

## 1. Introduction

This report has been prepared to update Cabinet on a number of issues noted as outstanding in the budget papers.

## 2. Capitalisation Directions

Report references:

2010/11 Revenue and Capital Budget report- Agenda pack
- page 182- Appendix A section 2
- page 171 - (b) redundancies
- page 177- (iii) Icelandic Bank losses

Treasury Management Strategy Report – Agenda pack
- page 115- paragraph 5.13

2.1 On 31 January the Council received confirmation that the Capitalisation Directions applications for the pension fund/redundancy one off payment and the Icelandic bank losses had been approved.

2.2 Capitalisation Directions allow the Council to fund revenue spend from capital resources. Any capitalisation under the approvals will therefore increase the capital programme and the requirement for funding of it. Any funding from borrowing will also increase the revenue budget. The Capitalisation Directions apply to spend incurred to 31 March 2010 only.

2.3 Section paragrapg 2.4 seeks approval to capitalise redundancy pension strain payments and 2.5 the potential Icelandic bank losses. An additional transfer to the pension fund of up to £7m will be considered prior to year end subject to identification of capital resources. The implications on the capital programme and revenue budget are detailed in section 3.

2.4 Capitalisation of redundancy strain payments -up to £2m

The Council is required to make a contribution into the pension fund where staff are made redundant and able to draw down their pensions early. This is referred to as a pension strain payment. This seeks to top up the pension fund for the loss of contributions from these staff and extra costs that will be incurred by having to make pensions payments earlier than assumed during the last valuation.

The Council has made a number of staff redundant during the year and pension strain payments are anticipated by year end to be a maximum of £2m. Capitalising these costs will remove a pressure on the revenue budget, enabling a further contribution to reserves in 2010/11.

Pension strain payments must be financed from capital receipts.

2.5 Potential Loss Icelandic Bank– up to £5.8m

An application in the sum of £5.8m was made to cover potential losses in from the monies invested in Iceland. The Council is not required to account for any losses in Iceland until 2010/11 but can use the capitalisation direction to bring the losses into its accounts earlier. By utilising the Capitalisation Direction the Council could minimise the impact by spreading the loss over a 20 year period.

The situation with regards to Iceland remains unclear and subject to uncertainty. The £5.8m assumed a worst case scenario. Last week, for instance, the Council was advised that it will now receive an additional dividend payment from Heritable which will reduce the statutory impairment charge. The final impairment charge from Glitnir and Landsbanki will depend on negotiations and outcome of court cases with the banks over future months. A retrospective adjustment (downwards) can be made in future years to any capitalisation made in 2009/10 as and when the position becomes clearer.

The capital costs arising from this option would be financed from borrowing, increasing the cost to the revenue budget.

## 3. Implications on the Revenue and Capital Budgets

3.1 Capital Programme

Reference agenda pack page 153- para 4.3

3.1.1 Approval of the proposals outlined above will increase the capital programme in 2009/10 to £99.821m as follows:

| | £000 | £000 |
|---|---|---|
| Current approved programme | | 92,021 |
| Add capitalisation | | |
| Pension strain payments | 2,000 | |
| Potential loses Icelandic banks | 5,800 | |
| | | 7,800 |
| **Revised programme for year** | | **99,821** |

3.1.2 The medium term capital programme will similarly increase by £7.800m to £275.055m.

3.1.3 The options outlined above rely on the ability of the Council to meet the costs from its capital resources, and the availability of capital receipts will be a key deciding factor. Capital receipts in hand, excluding the Citybus receipt, as at 5/02/10 are as follows:

| | £000 |
|---|---:|
| Capital Receipts brought forward 2008/09 | 347 |
| Receipts received in year | 1,889 |
| Transfer from Set aside (prudential receipts) | 4,443 |
| **Total General Receipts** | **6,379** |

Over the medium term programme there is a forecast capital receipt requirement of £28.359m which will increase by a further £2m if the pensions fund capitalisation is approved, against forecast receipts of £22.847m. However this figure does not yet include the anticipated Vat shelter/RTB receipts estimated at £17m over the next 5 years or the Citybus receipt of £19.5m.

3.2 Revenue Budget

Reference agenda pack page 152 paragraph section 3.5

The Icelandic Bank capitalisation would be funded from temporary borrowing which would result in an increased annual revenue cost of £0.3m in 2010/11 and future years. These costs have not yet been included in the budget as outlined in the budget report and capital financing budget requirement by 0.3m and the total spending plans to £202.626m, against forecast resources of £201.825m. Officers will continue to explore options to bring the spending plans back to match resources over the next few weeks with final amendments reported to Council at its meeting on 1 March 2010.

**Recommendations:**

1. The following amounts be capitalised in 2009/10

    - Redundancy pension strain payments totaling a maximum of £2m
    - Potential Icelandic Bank Losses totaling £5.8m

2. Cabinet approve the increase to the capital programme of £7.8m in 2009/10.

3. Cabinet note the increased capital financing requirement and approve that £2m be met from capital receipts and £5.8m from temporary borrowing.

4. Cabinet note the impact on the revenue budget on 2010/11 and request officers to report to full Council on 1 March 2010 on options to reduce the revenue budget spending plans to match anticipated resources.

5. An additional transfer to the pension fund of up to £7m be considered prior to year end subject to identification of capital resources.

## 4 PFI – implications on Prudential Indicators

Reference Treasury Management report

- agenda pack page 116 paragraph 6.1 table 2
- agenda pack page 119 paragraph 8.2 table 4
- agenda pack page 120 paragraph 8.9

4.1 Under International Financial Reporting Requirments the council is required to bring its schools PFI scheme onto its balance sheet. PFI accounting is extremely complex and officers have been working with external support to arrive at the necessary accounting entries and the impact on our borrowing limits. The inclusion of the PFI scheme will increase both our CFR and statutory borrowing limits as outlined below.

4.2 The Council's external debt will increase by £32.38m and £31.20m in 2010/11 and 2011/12 respectively as shown below.

**Update to agenda pack page 116 table 2**

| | 31/3/2010 Estimate £m | Ave % | 31/3/2011 Estimate £m |
|---|---|---|---|
| **External Borrowing** | | | |
| Fixed Rate PWLB | 28.89 | 5.81 | 60.35 |
| Fixed Rate - Market | 81.08 | 4.42 | 74.08 |
| Variable Rate - Market | 88.65 | 3.45 | 112.46 |
| DCC Administered Debt | 33.94 | 5.40 | |
| **Existing Long term Liabilities** | **232.56** | **3.10** | **246.89** |
| | | | |
| IFRS long-term liabilities: | | | |
| PFI (2009/10) | 32.58 | | 31.20 |
| Finance Leases (2010/11 onwards | 0 | | 0 |
| **Total External Debt** | **265.14** | | **278.09** |
| | | | |
| **Total Investments** | **105.00** | **2.77** | **63.00** |

4.3 The revised CFR is as follows:

**Update to agenda pack page 118 table 4**

| Capital Financing Requirement | 31/3/2010 Approved £m | 31/3/2010 Revised £m | 31/3/2011 Estimate £m | 31/3/2012 Estimate £m | 31/3/2013 Estimate £m |
|---|---|---|---|---|---|
| Total CFR* | **209.036** | 239.113 | **265.704** | **266.794** | **263.490** |

4.4 As a result of the above adjustments, the statutory borrowing limits will need to be as follows:

| | 2010/11 £m | 2011/12 £m | 2012/13 £m |
|---|---|---|---|
| • Authorised Limit | 347 | 337 | 324 |
| • Operational boundary | 295 | 295 | 293 |

4.5 As the effective date for the PFI scheme is 1 April 2009, there will also need to be an increase to the approved borrowing limits for 2009/10 as follows

- Authorised limit - £495m
- Operational boundary - £465m

**Recommendations:**

6. Cabinet recommend to full Council

(a) The Authorised Borrowing limits of £347m, £337m and £324m for the period 2010/11 to 2012/13;

(b) The Operational Boundary of £295m, £295m and £293m for 2010/11 to 2012/13;

(c) The Prudential Indicators as now set out in the attached Appendix;

(d) The statutory borrowing limits for 2009/10 be amended as follows:

- Authorised Limit - £495m
- Operational Boundary - £465m

**5. Carefirst Project**

5.1 Arrangements for the introduction and updating of Carefirst across the Council have recently been reviewed and implemented following consideration by CMT, these include revised governance with the formation of a new Project Board to tighten controls and focus on the delivery of the project. Importantly we are now viewing the project as more than just simply implementing a technological solution or package and are addressing wider service transformation and improvements, behaviours and cultures within services. This will enable us to fully utilise the system and get the maximum benefits.

5.2 We have reviewed the timetable and put Children's Services first in terms of implementation and Adult Social Care second. The result of this is that Children's Services will be implemented significantly quicker that previously planned. This will address concerns and issues raised as part of the recent inspection of the service. Adult Social Care will see the system implement during 2012 which is not significantly longer than original timescales.

5.3 The level of required resources to achieve the timescales has also been revisited, all budgets have been reviewed, while there are ongoing budget challenges these will be address by keeping the project under constant review and looking to deliver efficiencies as a result of the new systems and transformation work as we progress. We have conclude that in addition to the £0.400mk a year allocated in 10/11 and 11/12 an additional sum of £0.425m in the current to deliver the project to the tight timescales is required.

**Recommendations:**

7. A virement of £0.425m be approved from the Council's general contingency in 2009/10 to the Carefirst project.

**APPENDIX B**
**Annex 1**

**2010/11 TREASURY MANAGEMENT STRATEGY - PRUDENTIAL INDICATORS**
**(as updated 9 February 2010)**

| PRUDENTIAL INDICATOR | 2009/10 Approved | 2009/10 Update | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
|---|---|---|---|---|---|
| | £M | £M | £M | £M | £M |
| **AFFORDABLE BORROWING LIMITS** | | | | | |
| **Estimated Capital expenditure** | | | | | |
| Non - HRA | 84.691 | 84.030 | 93.317 | 45.182 | 22.044 |
| HRA | 7.222 | 7.991 | n/a | n/a | n/a |
| **Total** | **91.913** | **92.021** | **93.317** | **45.182** | **22.044** |
| **Capital Financing Requirement - As at 31st March** | **209.036** | **239.113** | **265.704** | **266.794** | **263.490** |
| **Authorised Limit for External Debt** | | | | | |
| Borrowing | 460 | 460 | 312 | 302 | 289 |
| Other Long Term Liabilities (PFI) | 0 | 35 | 35 | 35 | 35 |
| **Total** | **460** | **495** | **347** | **337** | **324** |
| **Operational Boundary** | | | | | |
| Borrowing | 430 | 430 | 260 | 260 | 258 |
| Other Long Term Liabilities (PFI) | 0 | 35 | 35 | 35 | 35 |
| **Total** | **430** | **465** | **295** | **295** | **293** |
| **Limit for Fixed Interest Rate Exposure** | | | | | |
| Net Fixed Rate (Borrowing less investments) | 200% | 310% | 200% | 200% | 200% |
| **Limit for Variable Rate Exposure** | | | | | |
| Net Variable Rate (borrowing less investments) | 60% | 60% | 85% | 85% | 85% |
| **Upper Limit for sums Invested over 364 days** | £60m | £60m | £25m | £25m | £25m |
| **Capital Financing Cost as a % of Revenue Stream** | % | % | % | % | % |
| General Fund | | | | | |
| - Plymouth Debt | 6.12 | 6.41 | 6.11 | 6.44 | 6.33 |
| - Devon Managed Debt | 1.71 | 1.67 | 1.56 | 1.49 | 1.43 |
| **Total** | 7.83 | 8.08 | 7.67 | 7.93 | 7.76 |
| Housing Revenue Account | 28.69 | n/a | n/a | n/a | n/a |
| **Incremental Effect of Additional Programme on Council Tax (Band D p.a)** | **£0.75** | **-£1.30** | **£0.34** | **£15.86** | **£32.97** |

| **Fixed Rate Borrowing Maturity Limits for 2010/11** | **2009/10 Upper Limit** | **2010/11 Upper Limit** | **2010/11 Lower Limit** |
|---|---|---|---|
| Under 12 months | 60% | 65% | 0% |
| 12 months and within 24 months | 60% | 65% | 0% |
| 24 months and within 5 years | 30% | 55% | 0% |
| 5 years and within 10 years | 25% | 50% | 0% |
| 10 years and above | 60% | | |
| 10 years and within 20 years | | 45% | 0% |
| 20 years and within 30 years | | 45% | 0% |
| 30 years and within 40 years | | 45% | 0% |
| 40 years and within 50 years | | 55% | 0% |
| 50 years and above | | 50% | 0% |

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