

## CHESHIRE EAST COUNCIL

### Cabinet

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<b>Date of Meeting:</b>	10 November 2009
<b>Report of:</b>	Borough Treasurer and Head of Assets
<b>Subject/Title:</b>	Financial Update – Quarter 2 (Mid-Year Review)
<b>Portfolio Holder:</b>	Councillor Frank Keegan

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#### 1.0 Report Summary

- 1.1 This report advises Cabinet of the mid-year financial position in 2009-10.
- 1.2 The report particularly focuses upon areas of high financial risk to the Council and includes updates on Treasury Management, the Capital Programme, in-year collection rates for Council Tax and Business Rates and an update on the Reserves strategy.

#### 2.0 Decision Requested

- 2.1 Cabinet is requested to note and comment as appropriate on the following:
- the pressures on the Council's revenue budget in the second quarter of 2009-10, detailed in Section 11 and Appendix 1 and the proposed remedial action;
  - the positions on Adults Transformation Funding and Learning Disability Pooled Budget detailed in Section 11.2;
  - the Treasury Management update detailed in Section 12;
  - the Council's in-year collection rates for Council Tax and Business Rates, detailed in Section 13;
  - progress to date on delivering the 2009-10 capital programme, detailed in Section 14 and Appendix 3;
  - Delegated Decisions approved by Directors, as shown in Appendix 2b;
  - Delegated Decisions approved by Directors in consultation with the relevant Portfolio Holder and the Portfolio Holder for Resources for Supplementary Capital Estimates (SCE) and virement requests over £100,000 and up to and including £500,000 as shown in Appendix 2a;
  - the updated Reserves position detailed in Section 15 and Appendix 4.
- 2.2 Cabinet is requested to approve the following:
- a virement devolving £900,000 from the Dedicated Schools Grant uncommitted funds of £1.528m, allocating £85,000 to DSG centrally supported activity, retaining £543,000 within a central contingency, as set out in Section 11.2;

- a Supplementary Revenue Estimate of £84,500 for preparatory works on the Tatton Park Biennial funded by external contributions as set out in Section 11.3;
- a Supplementary Revenue Estimate of £170,000 for a Housing Stock Condition Survey funded from the LPSA Target 11 Reward Grant, as set out in Section 11.3;
- the revised in-year capital budget for 2009-10 as set out in Section 14, including;
- Supplementary Capital Estimates (SCE)/Virements over £500,000 and up to and including £1.0m, as shown in Appendix 2a
- Reductions in approved budgets, as shown in Appendix 2c.

2.3 Cabinet is asked to recommend that Council approve the following SCE and Virement requests over £1.0m, those which require funding from later years and those funded from reserves, as detailed in Appendix 2a:-

- |   |            |
|---|------------|
| • Christ the King Catholic & Cof E Primary School | £3,039,000 |
| • Stapely Broad Lane Primary School               | £906,000   |
| • Offley Primary School                           | £845,000   |
| • Energy Efficiency – Invest to Save              | £75,000    |

2.4 Cabinet is asked to recommend that Council approve the use of General Reserves to fund the following items as detailed in Section 15:-

- a. £75,000 in 2009-10 for energy efficiency measures to reduce Carbon Emissions.
- b. Round 2 Voluntary Redundancy costs of up to £5m, together with the additional future payment of actuarial costs.

2.5 Cabinet is asked to recommend that Council approve the use of General Reserves to create the following new earmarked reserves as detailed in Section 15:-

- a. Invest-to-Save Projects (£2m)
- b. Enabling Local Working (£625,000)

### **3.0 Reasons for Recommendations**

3.1 This is the first budget of Cheshire East Council with a number of significant challenges, and in accordance with good practice members should receive a quarterly report on the financial position of the Council. This is the second report for the 2009-10 financial year.

### **4.0 Wards Affected**

4.1 Not applicable.

**5.0 Local Ward Members**

5.1 Not applicable.

**6.0 Policy Implications including - Climate change  
- Health**

6.1 None.

**7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)**

7.1 None.

**8.0 Financial Implications 2009-10 and beyond (Authorised by the Borough Treasurer)**

8.1 As covered in the report.

**9.0 Legal Implications (Authorised by the Borough Solicitor)**

9.1 There are no specific legal implications related to the issues raised in this report.

**10.0 Risk Management**

10.1 Financial risks are assessed on a regular basis and will be reported to members quarterly. Remedial action will be taken if and when required. Section 15 of this report updates the financial risk assessment reported to Council when the 2009-10 budget was set in February.

**11.0 Revenue Budget 2009-10**

11.1 The first quarter report to Cabinet on 11<sup>th</sup> August 2009 reported on emerging pressures to the revenue budget amounting to £12.7m. This report provides a further update on budget pressures and the remedial actions in place.

Table 1 provides a summary position and reports an updated net budget pressure totalling £11.3m. Further details of the key pressures affecting directorates are summarised below and provided in more detail in Appendix 1.

Table 1 – Total Service Position

Service	Net Budget £000 A	Budgeted Savings £000 B	Underlying Budget Pressures £000 C	Remedial Actions £000 D	Net Budget Pressures £000 E (C-D)
People	131,227	(5,374)	15,970	(8,378)	7,592
Places	48,456	(7,421)	3,337	0	3,337
P & C	37,724	(11,192)	5,382	(5,060)	322
<b>Total</b>	<b>217,407</b>	<b>(23,987)</b>	<b>24,689</b>	<b>(13,438)</b>	<b>11,251</b>

Note: Net Budget includes Schools balances carried forward from 2008-09.

## 11.2 PEOPLE DIRECTORATE

11.2.1 In the first quarter review for the People Directorate emerging pressures were reported, with a projected net impact in 2009/10 of £4.7m. Those pressures arose from a variety of factors:-

- Within Children and Families Services, a significant increase in the number of Looked After Children. Additionally, it has been necessary to engage a number of interim staff and managers, to increase capacity and to address practice issues.
- Within Services for Adults it has proved difficult to contain care costs for both Older People and Adults with Learning Disabilities. There has also been slippage on cost reduction measures.
- Within Health and Wellbeing Services there have been decreases in income, compounded by unrealistic income targets.

11.2.2 Following the first quarter review efforts have continued, not only to identify and implement immediate measures to limit the projected in-year over spending, but also to continue the large programmes of transformation in order, on a medium and longer term basis, to reshape services into a more sustainable form and size. A great deal of energy and effort has gone into both of those areas of work, but at the same time the continuing demand pressures have contributed to a projected gross impact of £16m being reported at the mid-year point. Remedial action and the contribution of temporary funding have resulted in a net budget pressure of £7.6m. The data upon which this forecast is based has been improved somewhat over the first quarter review, but it is clear that there is still some way to go before operational and financial information is of the necessary quality to support managers so that they are able to effectively analyse and work upon the key issues.

**Table 2 - Summary Figures – People Directorate**

<b>Service</b>	<b>Net Budget £000</b>	<b>Budgeted Savings £000</b>	<b>Underlying Budget Pressures £000</b>	<b>Remedial Actions £000</b>	<b>Net Budget Pressures £000</b>
Children and Families	43,603	(298)	7,375	(1,878)	5,497
Adults	72,237	(3,923)	7,295	(6,500)	795
Health and Wellbeing	15,387	(1,153)	1,300	0	1,300
<b>Total</b>	<b>131,227</b>	<b>(5,374)</b>	<b>15,970</b>	<b>(8,378)</b>	<b>7,592</b>

### 11.2.3 Key Issues

- Social Care Services, both for adults and for children, have a role to gate-keep access to interventions, but they are statutorily required to meet assessed need, irrespective of the resource situation. The increases in the number of Looked After Children appear to be part of a national phenomenon, influenced in some measure by a reaction to national events, such as the death of Baby P. Children's Services across the country are reporting very substantial increases in referrals, in Court action and in Looked After numbers.
- The costs of securing placements for both children and adults are increasing significantly and that is particularly a factor in out-of-borough placements, both social care and schooling. The increasing intensity and complexity of the needs presented by frail, older people are giving rise to increases in the costs of long term residential provision.
- Concern about the size of caseloads and about aspects of practice have made it necessary to secure additional, interim inputs to supplement staffing and to address practice issues within Children and Families Services. There appear to be overtime pressures within Catering Services, which need further investigation.
- There has continued to be a trend of declining income in Library Services from the borrowing of CDs and DVDs. It was pointed out at the outset that the introduction of the Government's ambitions for free swimming provision would be likely to impact negatively upon income, and that now seems to be the case. The practice of balancing budgets by increasing income targets has created unfillable holes within certain budgets.
- It has emerged that progress towards savings has slipped in some areas. In some cases that arises from external factors – for instance, the re-phasing of the opening of Extra Care Housing Schemes. In other cases there have clearly been capacity short-comings.
- New savings targets have come on top of some inherited budget problems from previous Authorities. Children and Families Services inherited a deficit at the start of the financial year. Similarly, overspending was inherited within the Pooled Budget for Services for Adults with Learning Disabilities.

#### 11.2.4 Remedial Actions

- Services for Adults will review referral processes and mechanisms in order to ensure that services are targeted and delivered to the correct users in a timely and efficient manner.
- Proposals are before the Cabinet for giving significantly increased focus within Adult Services to prevention, in order to delay and divert to a greater extent the take-up of expensive care packages.
- Procurement arrangements for all services will be reviewed to ensure that the Council is securing value for money.
- Structures in all areas of service will be radically re-visited in order to reduce further the costs of service delivery.
- Vacancy management procedures will be reviewed to ensure that only authorised overtime takes place.
- Work will be done to define more sharply a baseline of the Looked After Children population within Cheshire East, and measures both to gate-keep access to that system and to promote discharge from it will be reviewed.
- A close and continuing focus will be brought to bear upon the budget position, to ensure that all possible remedial action is being taken and its outcomes are being monitored.

#### 11.2.5 Dedicated Schools Grant

The Dedicated Schools Grant (DSG), which funds the schools provision across Cheshire East, has uncommitted funding of £1.528m, which is available to devolve additional funding to schools or be retained to fund certain allowable central spend on for example Special Education Needs (SEN) and the costs of children with special needs attending out of Borough establishments. A report was discussed at the Schools Forum on 20 October, proposing to devolve £900,000, allocating £85,000 on centrally supported activity within the DSG central spend, and retaining £543,000 as a central contingency. The Forum had previously made strong representations that the majority of uncommitted funding should be devolved and initially suggested that more than £900,000 should be devolved. After a lengthy debate the Forum agreed to support the proposal, requesting that an early decision be approved by the Council and schools notified to allow them to benefit from the additional funding during 2009-10.

#### 11.2.6 Adults Transformation Funding

On 16 June 2009, the Cabinet approved in outline terms that the Adults Service could utilise £6.9m of temporary funding (£3.8m of which is funded from reserves), requiring that regular reports be brought on the expenditure and the achievement of the transformation programme across the Service. A separate report on this agenda covers the transformation programme, whilst a short update of the current anticipated expenditure is detailed below.

	£000
Provider Services - staff restructure timing	1,100
Individual Commissioning – Care Cost reduction timing	4,000
Community Support Centres – essential H&S work on Misters	280
Voluntary Redundancy	1,520
Allocation	6,900

### 11.2.7 Learning Disability Pooled Budget

Learning Disability Services have operated within a Partnership and Pooled Budget on the former Cheshire County Council boundaries with the two Primary Care Trusts (PCT) since April 2002. This arrangement, which is currently hosted by Cheshire East Council, ends on 31 March 2010.

From 1 April 2010 we wish to reframe this partnership and pooled funding arrangement to cover just the area of Cheshire East Council. This will enable the continuation of the positive joint commissioning of services to meet the local needs of people with a learning disability, whilst supporting a positive approach to cost management, independence, localism and high quality service provision within Cheshire East Council area. Members are asked to note this new arrangement.

### 11.2.8 Conclusion

The spending pressures across the People Directorate are considerable and they are increasing. Capacity in several areas is a major problem. Managers are working hard on these issues, often with relatively little financial data to assist their analysis and their planning. Further urgent exploration will take place to try to identify additional measures which will have an impact within the current financial year. It would be unrealistic to expect that action can be taken which would bring Children's Social Care Services into balance with safety by the end of the financial year. Work across the board will continue on the considerable programme of transformation which is designed both to improve services to the public and to ensure that those services are in a shape which is financially sustainable.

## 11.3 PLACES DIRECTORATE

11.3.1 Following organisational restructures and associated budget transfers between Directorates and Services, the Places Directorate has an approved net budget for 2009-10 of £48.5m. Savings of £7.4m were included in the Places Directorate budget as part of the budget determination for 2009-10. Whilst progress is being made in realising many of the cost savings and efficiency items, this report sets out the challenges of managing cost pressures and the effect that the decline in economic activity is having on Services' ability to generate income.

- 11.3.2 At mid-year, Services have identified budget pressures with a projected net impact of £3.3m at year end, compared to £2.9m emerging pressures at first quarter. It should be highlighted that this includes a favourable pay variance (projected underspend) of £1.2m.
- 11.3.3 Work continues to finalise the Directorate structure, review service delivery, identify and implement other remedial actions: the financial impact of these changes will be reported further to Members at three-quarter year review. The following table shows the forecast impact of underlying budget pressures, as offset by estimated pay budget variances, in 2009-10.

**Table 3 - Summary Figures – Places Directorate**

<b>Service</b>	<b>Net budget £000</b>	<b>Budgeted savings £000</b>	<b>Underlying Budget pressures £000</b>	<b>Remedial actions £000</b>	<b>Net Budget pressures £000</b>
Environmental	34,242	(4,915)	2,191	0	2,191
Safer & Stronger Communities	421	(877)	421	0	421
Planning & Policy	3,216	(518)	1,208	0	1,208
Regeneration	10,577	(1,111)	(483)	0	(483)
<b>Total</b>	<b>48,456</b>	<b>(7,421)</b>	<b>3,337</b>	<b>0</b>	<b>3,337</b>

11.3.4 **Key service cost drivers**

The Waste Management Service is currently forecasting a £2.1m overspend, including £1.7m in respect of landfill and household waste recycling centres and £315,000 relating to collection and recycling. Fluctuations in activity in the wider economy will impact significantly on the Directorate's outturn position. Key areas that are affected include income from car parking (now forecast to be £814,000 lower than budgeted), land charges and planning fees (estimated to be some £1.4m below budget).

Variations in the level of these activities are mainly beyond the Directorate's influence and the effect on the outturn position presents a challenging financial scenario within which the overall budget needs to be managed. Income generation was highlighted as a particular area of concern during the budget determination for 2009-10: the first-quarter review identified areas where significant shortfalls were anticipated and the latest forecasts continue to underline this expectation.

11.3.5 **Remedial actions**

The Directorate is managing the delivery of its policy proposals (budgeted savings) for 2009/10 and is also maintaining tight control of expenditure to manage its budget effectively and mitigate the impact of the pressures identified.

The Directorate is actively reviewing its budgets and the potential for taking remedial actions in the remainder of the year, particularly in respect of non-pay expenditure.

#### 11.3.6 **Conclusion**

At this stage of reporting in the financial year the Places Directorate has identified net emerging pressures / other variances totalling £3.3m (7%) against an approved net budget of £48.5m.

The pressures in respect of costs of Waste Management and reductions in fees and charges (Planning, Land Charges and Car Parking) are significant and the achievement of further savings will be challenging.

#### 11.3.7 **Supplementary Revenue Estimate Requirements**

- **Tatton Biennial**

A report was presented to Cabinet Members for Prosperity and Health and Wellbeing on the 14th August regarding the Tatton Park Biennial. The financial implications for the current financial year, 2009-10, in respect of preparatory works for the 2010 Biennial are estimated to be £111,500.

These works will be funded from existing Cheshire East budgets of £27,000, along with £84,500 from external contributions: £67,250 from the Arts Council England North West, £2,250 from the Tatton Trust and £15,000 from the National Trust. Therefore, Members are requested to approve a Supplementary Revenue Estimate for £84,500 to be fully funded by external contributions as detailed above.

- **Housing Stock Condition Survey**

Local Authorities have a statutory duty to review the condition of their housing stock and develop appropriate policies to deal with any deficiencies. Stock condition surveys are carried out by local authorities on a regular basis in order for officers to develop robust private sector renewal policies to meet the needs identified within the surveys. The procurement of a stock condition survey will require revenue funding in the region of £170,000. These funds are not available within the 2009-10 approved budget and therefore a Supplementary Revenue Estimate is requested to be fully funded from the LPSA Target 11 Reward Grant (to be held within an earmarked reserve).

#### 11.4 **PERFORMANCE & CAPACITY DIRECTORATE**

11.4.1 The first quarter review for the Performance & Capacity directorate reported emerging pressures with a projected net impact in 2009/10 of £5m. This has now increased to £5.4m due primarily to members allowances expenditure being higher than anticipated at first quarter due to travel and

NI/Pension take up. The approved 2009-10 budget included transitional funding of £5.1m to recognise the fact that the P & C efficiency savings of over £10m could not all be delivered immediately. The total transitional bids received to date (including the 2009-10 element of Invest to Save bids) can be contained within the available funding.

**Table 4 - Summary Figures – Performance & Capacity**

<b>Service</b>	<b>Net Budget £000</b>	<b>Budgeted Savings £000</b>	<b>Underlying Budget Pressures £000</b>	<b>Remedial Actions £000</b>	<b>Net Budget Pressures £000</b>
Borough Treasurer & Head of Assets	20,343	(7,968)	3,097	(3,340)	(243)
HR & OD	2,804	(954)	941	(854)	87
Borough Solicitor	5,269	(1,083)	404	(254)	150
Policy & Performance	9,308	(1,187)	940	(612)	328
<b>Total</b>	<b>37,724</b>	<b>(11,192)</b>	<b>5,382</b>	<b>(5,060)</b>	<b>322</b>

#### 11.4.2 Key issues

- **Borough Treasurer & Head of Assets**

The underlying budget pressure relates to the impact of the savings targets that were part of the 2009/10 base budget. The remedial actions figure relates to the use of transitional funds. The net underspend stems primarily from overspends in Assets and Procurement partly offset by an underspend in Insurance.

- **HR & OD**

As above the budget pressures have been offset by the use of transitional funds. However, the net overspend is as a result of the impact of current staffing levels that will be corrected by the implementation of the new structure in 2010/11.

- **Borough Solicitor**

The underlying budget pressure relates primarily to the impact of the savings targets that were part of the 2009/10 base budget. It also relates to Members allowances being £227,000 overspent due to travel expenditure and take up of pensions exceeding estimates. The remedial actions figure relates to the use of transitional funds. The net overspend is as a result of the members allowances issue. It should be noted that Legal services overspend of £431,000 is being offset by the one off use of Elections funds.

- **Policy & Performance**

As above the budget pressures have been offset by the use of transitional funds. However, the net overspend is as a result of the impact of prudential borrowing costs relating to Customer Relationship Management (CRM) and telephony in Customer Services and additional one-off expenditure in Communications which is for the whole council and was not covered in the initial transition cost bid. The Communications expenditure relates to internal branding at Emperor Court and Delamere House, internal notice boards and the cost of celebration events to mark the end of the first year of Cheshire East Council. These additional one off costs cannot be met from within the existing Communications budgets or absorbed within the Policy and Performance budgets in total.

#### 11.5 **Ongoing Impacts 2010-2011 and future years**

The vast majority of the above budget pressures have been reflected within the Business Planning process, although the amounts built in do not reflect the increased levels of overspend reported within this mid year review. At this stage it suggested that the current levels detailed within the Business Planning process remain, whilst further work continues within each service area.

#### 12.0 **Treasury Management**

12.1 Investment income based upon the current economic climate is estimated to be in line with the original budget of £0.9m.

- The rate of interest to be earned on the Council's cash balances is budgeted to be 0.65%
- The average lend position (the 'cash balance') up to the end of the second quarter was £88.1m.

The Council's average interest rate up to the end of quarter 2 in 2009-10 was 0.99%. This is favourable when compared to the London Inter-bank Bid Rate for 7 days 0.39% and the budgeted outturn of 0.65%. The base rate remained at 0.50% for the quarter.

<b>Comparator</b>	<b>Average Rate Q2</b>
CEBC	0.99%
LIBID 7 Day Rate	0.39%
LIBID 3 Month Rate	0.91%
Base Rate	0.50%

#### 13.0 **Collection Rates**

13.1 The Council Tax collection rate for the second quarter is 59.2%, maintaining last year's rate.

- 13.2 The National Non-Domestic Rates collection rate for the second quarter is 58.5%, a reduction of 1.6% on last year's position.

#### 14.0 Capital Programme

- 14.1 At the mid year review stage, Cheshire East are forecasting expenditure of £112.293m in 2009-10, £53.586m in 2010-11 and £12.446m in later years. Details by department are shown below in Table 5.

**Table 5 – Mid Year Review Capital Expenditure Forecasts**

Department	Forecast Expenditure			
	2009-10 £000	2010-11 £000	2011-12 £000	2012-13 £000
<b>People</b>				
New Starts	10,578	16,492	2,171	50
Committed schemes	28,070	9,910	1,270	350
	38,649	26,402	3,441	400
<b>Places</b>				
New Starts	15,925	343	0	0
Committed schemes	38,223	21,591	3,277	0
	54,148	21,934	3,277	0
<b>Performance &amp; Capacity</b>				
New Starts	14,867	5,114	4,440	0
Committed schemes	4,629	136	888	0
	19,496	5,250	5,328	0
<b>Total New Starts</b>	<b>41,370</b>	<b>21,949</b>	<b>6,611</b>	<b>50</b>
<b>Total Committed schemes</b>	<b>70,923</b>	<b>31,637</b>	<b>5,435</b>	<b>350</b>
<b>Total Capital Expenditure</b>	<b>112,293</b>	<b>53,586</b>	<b>12,046</b>	<b>400</b>

- 14.2 The 2009-10 programme consists of on-going legacy schemes (£70.923m) and new starts (£41.370m).
- 14.3 The programme is funded from both direct (grants, external, linked capital receipts), and indirect (borrowing approvals, revenue contributions, capital reserve, non-applied receipts) income. Details are shown below in Table 6.

**Table 6 – Funding Sources**

Funding Source	Forecast Expenditure			
	2009-10 £000	2010-11 £000	2011-12 £000	2012-13 £000
Grants	54,421	37,272	3,745	50
External Contributions	4,894	387	0	0
Linked/Earmarked Capital Receipts	5,122	10,370	4,235	350
Supported Borrowing	13,979	2,572	1,924	0
Non-supported Borrowing	15,035	2,949	1,862	0
Revenue Contributions	3,443	340	0	0
Capital Reserve	11,289	3,807	280	0
<b>Total</b>	<b>108,183</b>	<b>57,697</b>	<b>12,046</b>	<b>400</b>

**NB** Variance between expenditure and funding in 2009-10 and 2010-11 is due to a number of linked receipts not now due in until 2010-11

- 14.4 Departments have updated forecasts as requested at the mid year stage, resulting in a decrease of £7.674m for 2009-10, an increase of £13.661m in 2010-11, and a decrease of £1.760m in later years from the position reported at first quarter. The majority of the reduction in forecast expenditure in 2009-10 is due to a number of schemes progressing more slowly than originally forecast. Further details are provided in Section 14.7. This slippage, combined with the approval of a number of new schemes is the reason why the forecast for 2010-11 has increased.
- 14.5 Details on a scheme by scheme basis are contained in Appendix 3.
- 14.6 The current programme is fully funded (see Table 6 above), although more work is necessary to determine the opening balances for capital receipts and reserves. This information will be known in advance of the 2010-11 planning cycle, which will enable Members to make decisions around new starts in 2010-11 which meet the priorities of the new Authority.

#### Key Issues and Variances

- 14.7 Details of major variances (over £0.250m) between the in-year budget and mid year forecasts for 2009-10 along with any other issues for Departments, and details of new schemes requiring approval are shown below. Members should note that any new schemes over £0.250m have already been approved by the Capital Appraisal & Monitoring Group.

#### **People**

- 14.7.1 Transforming Learning Communities schemes (TLC)  
Members were advised at the first quarter review of a cash flow problem of around £4.1m. This was due to a reduction in the value of the receipts due and a delay to the date the receipts were expected. Officers have

explored different solutions and it is proposed to fund the shortfall through the capital reserve, and repay the reserve once the receipts are received.

14.7.2 National Dementia Strategy – Hollins View

In June, Cabinet approved two schemes totalling £3m as part of the council's response to the national dementia strategy. The first one which is budgeted to cost £1m to provide extra beds at Lincoln House is currently proceeding with completion expected in the summer of 2010. Early indications are that the financial envelope of £1m is extremely tight and officers are continuing to develop the scheme within these financial parameters. A further update will be provided as part of the three quarter year review. The second scheme (costing £2m) to provide 30 additional beds at Hollins View in Macclesfield was subject to the new Extra Care Housing Round 5 PFI scheme using this particular site. Planning difficulties have now resulted in a decision to progress the scheme using a site at Newhall Avenue in Sandbach as opposed to Hollins View in Macclesfield and after consideration of the proximity of alternative provision for dementia in this area, it has been decided to remove this scheme from the programme at this point. A full review of all Adults Services Provider buildings is currently planned as reported to Cabinet on 3 November (Transformation of Services for Adults - Phase 2) and will be brought back to Members in due course.

14.7.3 Vernons PS Amalgamation

In year budget £3.079m, Forecast £2.206m, variance -£0.873m

At first quarter, the forecast provided for 2009-10 was incorrect. The department have now confirmed that the correct amount is as shown as the revised 2009-10 forecast.

14.7.4 Devolved Formula Capital (DFC) – All allocations

In year budget £6.450m, Forecast £4.403m, variance – £2.047m

DFC is 100% devolved to schools for them to spend on capital. It is notoriously difficult to forecast as schools can spend the allocation in full in the year it is allocated, or 'save' it towards a major capital scheme at the school site. Schools have 3 years and 5 months to spend each years' allocation. Forecasts have been reduced in the current year to reflect a reduction in the amount of DFC expenditure being incurred by schools.

14.7.5 14-19 Diploma

In year budget £0.7m, Mid Year Forecast £0.3m, variance -£0.4m

Cheshire East Council are currently considering their priorities for this funding source and are looking to ensure that whatever is planned is complementary to any plans being considered by Cheshire West & Chester regarding 14-19 special educational needs provision across both Authorities. As a result, the forecast has reduced by £0.4m.

14.7.6 Brine Leas 6<sup>th</sup> Form

In year budget £2.921m, Mid Year Forecast £3.458m, variance £0.537m

This scheme is progressing quicker than expected and the mid year forecast represents a more realistic projection. Income is received on a

quarterly basis from the Learning Skills Council, and therefore the variance will be fully funded from grant.

14.7.7 Sandbach United

In year budget £2.2m, Mid Year Forecast £0.5m, variance -£1.7m

This scheme was approved by Council in October. Initial projections indicated that the scheme would progress quickly in 2009-10. However, these projections are now considered unrealistic and forecasts have been revised accordingly.

14.7.8 Schools Modernisation Programme

In year budget £1.150m, Mid Year Forecast £0.574m, variance - £0.576m

The forecast on this programme has reduced to take into account the virement to the new scheme at Stapeley Broad Lane.

14.7.9 Stapeley Broad Lane Primary School

Members are asked to approve a Supplementary Capital Estimate of £0.906m for this new scheme within appendix 2a. The scheme, to replace 3 temporary classrooms with permanent accommodation, is fully funded from Modernisation grants and schools DFC.

14.7.10 Offley Primary School

Members are asked to approve a Supplementary Capital Estimate of £0.845m for this scheme within appendix 2a. The scheme, to refurbish the infant and junior schools and provide covered links between the buildings, will be fully funded from the Primary Capital Programme and DFC.

14.7.11 Kitchen & Dining Facilities

Members are asked to approve a Supplementary Capital Estimate of £0.6m for this scheme within appendix 2a. The scheme, to improve kitchen and dining facilities within schools, will be fully funded from standards fund grant. An element has to be matched funded from the school, and once the programme has been finalised, a further SCE will be brought to Members for the match funded element.

14.7.12 Wilmslow High School

Members are asked to approve a Supplementary Capital Estimate of £0.616m for this scheme within appendix 2a. The scheme, to create a new sports hall, which will provide a weather proof environment for a number of ball sports, and provide changing facilities and office accommodation, is fully funded from specialist schools grant and the schools DFC.

14.7.13 Christ the King Catholic & Church of England Primary School

Members are asked to approve a Supplementary Capital Estimate of £3.039m for this scheme within appendix 2a. The scheme, to develop the new school on the former St Edwards site, will be fully funded from the Primary Capital Programme, schools DFC and a contribution from the Diocese (LCVAP).

- 14.7.14 Christ the King Catholic & Church of England Primary School – Phase 1  
Members are asked to note a Supplementary Capital Estimate of £0.211m for this scheme within appendix 2a. The scheme, to progress the above project up to design stage, will be fully funded from grant income.

### **Places**

- 14.7.15 Highway Maintenance  
In year budget £0.968m, Mid Year Forecast £0.0m, Variance -£0.968m  
This project is currently on hold. The funding relied upon savings within the revenue budgets to fund Prudential Borrowing costs, but due to pressures within revenue, it is unlikely savings can be found.

- 14.7.16 Vehicle Replacement Programme  
In year budget £0.500m, Mid Year Forecast £0.0m, Variance -£0.500m  
This project is currently on hold. The funding relied upon savings within the revenue budgets to fund Prudential Borrowing costs, but due to pressures within revenue, it is unlikely savings can be found.

### **Performance & Capacity**

- 14.7.17 Currently, there is no information on actual expenditure from Cheshire West & Chester on areas that are linked to the Shared Services arrangements. This impacts on a number of ICT schemes.

- 14.7.18 Customer Relationship Management (CRM)  
In-year budget £1.705m, MYR Forecast £1.250m, variance -£0.455m  
The slippage in the CRM programme is due to an extended requirements gathering exercise and assessment of existing council solutions. As a result of this, the procurement decision is not likely until December. In addition, the transition phase for the website has lasted longer than anticipated, leading to delays in web development in the transformation phase, pushing costs into 2010-11.

- 14.7.19 The Farms Estate  
In-year budget £1.410m, MYR Forecast £0.460m, variance -£0.950m  
The forecast underspend on the 2009-10 Farms Estate scheme is due to delays in settling the budget position and the corresponding impact on construction planning, and delays in securing approval to sell properties previously declared surplus by the former County Council.

- 14.7.20 Revenue & Benefits System

In-year budget £0.444m, MYR Forecast £0.150m, variance -£0.294m  
The variance relates to a delay in the implementation date following the need to re-tender. This arose when during the process the Procurement Team and the Legal Team had an almost total change in personnel, and on review, prior to contract, the new teams confirmed that the evaluation criteria in the original tender documents were not fit for purpose. The contract was re-tendered with more robust criteria in May 2009 and

forecasts have been amended to reflect instalments payable at various stages of completion.

14.7.21 Data Centre, Macclesfield

Members are asked to note a Supplementary Capital Estimate of £0.495m for this scheme within appendix 2a. The scheme, to refurbish and re-organise the existing data centre at Macclesfield, install modern energy efficient cooling technology and upgrade the power supply, is fully funded from underspends elsewhere within the ICT programme.

14.7.22 Energy Efficiency Invest to Save Scheme

Members are asked to note a Supplementary Capital Estimate of £75,000 for this scheme within appendix 2a. The scheme will fund energy efficiency measures such as boiler controls, lighting controls, voltage optimisation and insulation that are calculated to reduce energy bills by nearly £34k per annum. The investment will be recouped in 2.2 years and will be funded from capital reserves.

14.8 **Conclusion – Capital Programme**

Members are presented with an updated position for the capital programme as at the mid year point. Forecasts for 2009-10 have decreased by £7.674m and represent a more realistic spending profile by Departments. The programme is fully funded from both indirect and direct income sources.

15.0 **Reserves Position**

15.1 Cheshire East Council's opening balance for revenue reserves has been updated following audit of the predecessor authority accounts. There is still some scope for amendments, following final agreement on disaggregation of the County Council balance sheet, so figures are still provisional at this stage.

15.2 The 2009/2010 Budget included the Reserves Strategy. Appendix 4 provides an update of that strategy. It includes revised balances, potential changes to balances and current status of the ongoing review of earmarked reserves.

**General Reserves Balances**

15.3 The council has budgeted for changes to the reserves position, allowing for items such as transitional costs, and for their repayment.

15.4 Approval is now sought for the following additional changes:

a. Carbon Reduction Commitment (2009/2010)

The council is embarking on a program of energy efficiency measures to reduce Carbon Emissions. £75,000 is anticipated to be spent within 2009/2010.

b. VR Round 2 (and ongoing actuarial costs)

The establishment of structures and service priorities within Cheshire East has created a need for further Voluntary Redundancy measures. £5m is currently recommended to support this requirement, with the additional future payment of actuarial costs also being met from General Reserves.

- 15.5 Table 7 (below) shows the latest projected position in terms of the movement on general reserves during 2009/10.

**Table 7: Reserves are expected to reduce slightly in 2009/2010**

Detail of Movements	£000	£000
<b>Opening General Reserves at 1st April 2009</b>		<b>24,449</b>
<b>Projected Use of Reserves</b>		
In year supplementary estimates	(6,502)	
Voluntary Redundancy (Round 2)	(5,000)	
<b>Projected Addition to Reserves</b>		
Repayment of Transition Costs (Net impact in 2009/10)	1,026	
Returned Earmarked Reserves	4,589	
Other contributing items	5,163	
<b>Net Changes in 2009/2010</b>		<b>(724)</b>
<b>Estimated Closing Balance at 31st March 2010</b>		<b>23,725</b>

Source: Cheshire East Reserves Strategy - October 2009

Further detail to support this table is provided in the Strategy (see Appendix 4).

- 15.6 Work has been undertaken to assess the adequacy of these reserves within the context of the council's predicted outturn. The outcome is detailed below.

**General Fund Reserves - Risk Assessment**

- 15.7 The desired level of reserves is substantiated by a detailed risk assessment. This approach allows the council to take account of the circumstances around current structural changes, emerging pressures and economic circumstances.
- 15.8 Risks are categorised and potential values applied to them, the actual exposure to the risk is then considered. Appendix 4 shows the risk areas and the level of reserves the council might reasonably retain to mitigate that risk. This is to some extent a matter of judgement but best practice requires a prudent approach to this assessment.

- 15.9 The outcome of this analysis has been to place an estimated total value on the range of risks that may arise and which are not covered by insurance. This is equivalent in total to £23.521m.
- 15.10 The high level of risk relates to a number of key areas including the following:
- a. In year emerging budget pressures
  - b. Medium Term Financial Position
  - c. Impact of disaggregation of County Council reserves
- 15.11 Some risks have however been downgraded or removed from the assessment. This reflects changing conditions or more robust mitigating action, for example:
- a. Stabilisation in investments markets and banking
  - b. Impact of Epidemic

### **Adequacy of General Reserves**

- 15.12 The Chief Finance Officer has a duty to comment on the adequacy of financial reserves and uses various data sources to inform that comment.
- 15.13 The improved opening balances, and budgeted intention to repay costs incurred from Local Government Reorganisation, appear sufficient to protect the council against the identified risks at this stage. The high level of risks is not unexpected following such a major change programme, but is therefore prudent to retain high levels of reserves until outstanding issues have been resolved.

### **Earmarked Reserves**

- 15.14 Earmarked reserves have the effect of transferring the tax burden across financial years as current taxpayers' funds are being used to support future years' spending. It is therefore necessary to review balances frequently to ensure that they are still appropriate, relevant and adequate for the intended purpose.
- 15.15 Cheshire East Councils opening balance for earmarked reserves are valued at £13.148m. These are subject to review to assess the extent to which they are justified, or can be used to further mitigate cost pressures identified by services. The review is ongoing and some additional balances are now being returned to General Reserves that reflect current progress.
- 15.16 Two additional earmarked reserves are recommended at this stage (one other new reserve, for the People in to Jobs project, has already been approved by Council):

a. Invest-to-Save Projects

The council is committed to promote efficient ways of working that can be demonstrated by a genuine business case. Following the identification of un-allocated balances in September, the proposal is to earmark £2m of general reserves to support invest-to-save projects.

b. Enabling Local Working

Local working forms part of the business case for re-organisation and this reserve will enable activity in this area to be developed. £625,000 of the general reserve is proposed to be earmarked to support this.

15.17 As part of the ongoing review, each earmarked reserve will be supported by comprehensive details that will improve management of these balances. The protocol for this is contained within the Reserves Strategy.

**16.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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