

CHESHIRE EAST COUNCIL

Cabinet

Date of meeting: 16 June 2008
Report of: Interim Chief Finance Officer
Title: The Management and Funding of Transitional Costs

1.0 Purpose of Report

- 1.1 To consider the approach to managing and funding transitional costs.
- 1.2 The report provides a progress report on work to identify transitional costs and existing sources of funding. It proposes an approach to the control and reporting of such costs and explains the basis for allocating any costs that cannot be funded from within current budgets across the four existing authorities. While work continues to refine and reduce net transitional costs, there is now an urgent need to invest in preparation for 1st April 2009 and beyond and Members are asked to approve expenditure in specified areas with the aim of achieving a total cost within the current projected maximums.
- 1.3 Members are asked to note that a similar report will be considered by the Cheshire West & Chester Cabinet on 11 June 2008 and in certain areas, such as cross-cutting costs and cost-sharing arrangements, a common approach will be essential.

2.0 Decision Required

- 2.1 To note the progress on identifying transitional costs and existing sources of funding and endorse ongoing efforts to refine and, where possible, reduce net costs.
- 2.2 To consider the expenditure proposals of Block and Workstream lead officers included in Appendix A.
- 2.3 To approve the commencement and/or continuation of expenditure in each Block and Workstream, as set out in Section 3.4 and Appendix A, with the aim of minimising the cost and subject to quarterly monitoring reports.
- 2.3 To agree the approach to controlling and monitoring agreed transitional costs detailed in Section 6.

3.0 Financial Implications for Transition Costs

- 3.1 This report focuses primarily on the direct costs of change (eg election expenses, running costs for Shadow Authorities, adaptation of ICT systems etc). Indirect costs, such as staff spending part of their time on LGR, have not

been identified or are assumed to be fully funded. No assessment has been made at this stage of potential severance costs.

3.2 In order to align with the Implementation Plan, individual lead officers for the various blocks (People, Places, Performance and Capacity) and cross-cutting workstreams (Finance, ICT, HR etc) were asked to identify transitional costs and existing sources of funding. They were reminded of the content of the People and Places business case, of the need to focus on essential costs of transition rather than desirable service enhancements and the strong presumption against the funding of backfill costs.

3.2 These responses were then evaluated by the two Interim Chief Finance Officers using the following criteria.

- whether the expenditure was strictly necessary and could demonstrate value for money
- whether the expenditure needed to be and could realistically be incurred prior to Vesting Day
- duplication between responses
- consistency across East and West Cheshire (ie where the figures were different, was there a justification for this?)
- consistency with the People and Places submission where this had specified costs
- the scope for absorbing costs or funding from existing budgets (including capital)

As a result of this evaluation the gross transitional costs for Cheshire East, identified by Block and Workstream lead officers, were reduced from £11.5m to £8.2m which, with estimated funding from existing budgets of £3.5m, left net transitional costs of £4.7m. This position was reported to the Cheshire East Joint Committee on 6 May 2008.

3.3 The two Interim Chief Finance Officers, with the support of the Joint Implementation Teams were however, strongly of the view that further work was required to refine and where possible reduce the gross costs and to identify further sources of funding. Members of the Joint Committees endorsed this approach and agreed that:

- a) Urgent expenditure in a limited number of areas is approved (see Appendix A).
- b) Block and Workstream lead officers are asked to re-evaluate their estimates against the criteria set out in paragraph 3.2.
- c) Further challenge of the figures is undertaken by Finance Officers.

- d) Finance Officers work with Block and Workstream leads and existing budget managers to identify existing sources of funding.
- e) A further report on the outcome of this work is reported to the Implementation Cabinets.

3.4 The revised proposals from Block and Workstream Lead Officers resulting from this work are attached at Appendix A. The potential gross cost for Cheshire East is now £9.300m with estimated funding from existing sources of £5.392m resulting in potential net transitional costs of £3.908m. The advice of the Joint Implementation Team is that while work will continue to refine and where possible reduce these costs the estimates are now sufficiently robust and the need to spend sufficiently pressing that Members be asked to approve spending in the areas specified in Appendix A. These net costs amount to £2.657m as follows:

Potential Known Net Cost for Approval	£000
People:	
Disaggregation of Performance Data	30
Business Continuity/Contract Disaggregation	60
System Changes	150
Other	33
Sub-Total	273
Performance & Capacity:	
Support for Members/Shadow Authority	80
Management Pay	450
Staff Training	100
Logos/Branding	250
Procurement – EU Legal Consultancy	50
Other	75
Sub-Total	1,005
HR Workstream:	
Appointment of Key Senior Positions	100
Other	12
Sub-Total	112
ICT & Knowledge Management:	
Common Network Infrastructure	75
Key Business Application Imp/Consolidation	274
System Changes	512
Additional Licences	150
Other	28
Sub-Total	1,039
Customer Access:	
Training Development & Support	50
Telephony System	115
Knowledge Base	63
Sub-Total	228
Total	2,657

Members will note that Appendix A also includes activities and costs which are not considered urgent/robust and these will be the subject of a further report to Members before significant expenditure is incurred.

4.0 Financial Implications 2009-10 and Beyond

- 4.1 In evaluating transitional costs officers have sought to avoid short-term approaches which minimise costs in 2008-09 but increase future costs and do not secure value for money over the medium term.
- 4.2 This report focuses primarily on transitional costs in 2008-09 (ie up to Vesting Day) but some slippage of expenditure into 2009-10 is likely. Some activities such as the adaptation of properties and ICT systems will continue beyond 1st April 2009 and are likely to incur additional costs in 2009-10 and perhaps beyond, which will need to be funded from delivered savings. Costs will also be incurred in 2009-10 on severance, staff training and relocation.
- 4.3 Some of the existing budgets being used to fund transitional costs are capital budgets which are financed by borrowing. The resulting debt will need to be serviced beyond 2008-09 by the new Authorities. This is particularly true of the County Council's contribution to ICT costs but this expenditure was planned as part of the Capital programme and fully financed through the Medium Term Financial Strategy. It is therefore expenditure that has been redirected to meet the priority needs of LGR rather than additional expenditure.

5.0 Risk Assessment

- 5.1 'Strategic financial issues' are listed on the risk register with a specific reference to the management and control of transitional costs. Too high a level of transitional costs would have an adverse impact on the financial status of the new authority, its ability to maintain an adequate level of reserves and ultimately on service delivery. However, failure to invest adequately in necessary transitional activity, risks failure to meet service commitments on 1st April 2009 and beyond and could prove a false economy if it resulted in higher costs post 1st April 2009. The approach that has been adopted to date and is described in this report seeks to strike a balance between these conflicting risks by having a clear process to identify, challenge, manage and monitor transitional costs.

6.0 Management of Transitional Costs

- 6.1 Block and Workstream leads need to be empowered to procure and deploy resources as required, to ensure the timely delivery of their agreed work programmes, provided they operate within agreed budgets and the appropriate financial and procurement procedures. It is proposed therefore that:
 - a) where appropriate, each Block and Workstream lead officer is assigned a budget in accordance with agreed costs.

- b) Block and Workstream leads authorise all expenditure against these budgets and report on a regular basis (ie quarterly) in a form to be determined by the Chief Finance Officer, to the JIT and the Shadow Cabinet.
 - c) Block and Workstream leads continue to work with Finance Officers to refine and where possible reduce costs and identify further sources of funding.
- 6.2 Given that Block and Workstream leads will now have significant financial responsibility it is proposed that all Blocks and Workstreams be assigned a nominated Finance Officer.
- 6.3 Officers will continue to operate under the financial and procurement procedures of their own authority. Where it is necessary to procure external goods and services, legal and procurement advice may be required to ensure we make best use of existing contracts to secure value for money and comply with good governance principles. In addition, it is likely that each Authority will wish to put in place its own internal arrangements for the control and monitoring of its expenditure on transitional costs.

7.0 The Funding of Transitional Costs

- 7.1 The Statutory Order requires all seven existing authorities to agree cost-sharing arrangements. The fall back position is arbitration but the position is complicated by the fact the Authorities are already contributing to varying degrees from existing budgets. The cost sharing arrangements have been discussed by the existing authorities and reported to the Joint Committees. The following approach to the funding of transitional costs has been adopted:
- a) separate budgets for Cheshire East and Cheshire West & Chester to reflect the fact that the two Shadow Authorities will in some areas adopt different policies and approaches with different cost implications.
 - b) the District Council element of cost to be shared pro rata to tax base.
 - c) the County Council to bear 45% of the costs for both Cheshire East and Cheshire West & Chester.

- 7.2 This approach results in the following cost-sharing proportions:

Cheshire County Council	45%	(East and West)
Congleton Borough Council	13.5%	(East only)
Crewe & Nantwich Borough Council	16%	(East only)
Macclesfield Borough Council	25.5%	(East only)

It is recognised that the financial position of existing Authorities regarding reserves and cash flow differs and that a pragmatic approach will be required as regards any recharges between authorities to reflect the above proportions.

It should be noted, however, that all existing authorities have concerns regarding affordability if the net costs exceed the amounts stated in the People and Places submission. This reinforces the need to revisit both the potential costs and the potential for funding from existing budgets.

8.0 Conclusion and Reasons for Recommendation

- 8.1 Significant progress has been made in evaluating and challenging transitional costs, identifying sources of funding, establishing control mechanisms and cost sharing arrangements. Ongoing work is required to refine and where possible reduce the net costs but in the meantime the areas of expenditure specified in Appendix A require urgent endorsement if essential work is to progress.

For further information:

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Background Documents:

Joint Committee Report – Management and Funding of Transitional Costs – 6th May 2008