

# CHESHIRE EAST COUNCIL

## CABINET

---

**Date of meeting:** 4 November 2008  
**Report of:** Interim Chief Finance Officer  
**Title:** Review of Transitional Costs Mid-Year

---

### **1.0 Purpose of Report**

- 1.1 To consider the outcome of the mid-year review of Transitional Costs and to seek approval for the changes to the Transitional Cost programme.
- 1.2 To provide an update on the mid-year review of Transitional Costs and existing sources of funding. This is the second full review of the programme since the Transitional Costs were approved by Cabinet in June.

### **2.0 Decision Required**

- 2.1 To approve the amendments to the projected Transitional Costs as a result of previous Member decisions and required adjustments (Section 7).
- 2.2 To note the outcome of the mid-year review (Section 8).

### **3.0 Financial Implications for Transition Costs**

- 3.1 In April the 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. Their responses were subject to two rounds of evaluation and review by the Interim Chief Finance Officers, the Block and Workstream Leads and Finance officers assigned to each of the areas.
- 3.2 Revised proposals from Block and Workstream Leads were considered by Cabinet in June 2008 where the position was summarised as a potential gross cost for Cheshire East of £9.3m, with estimated funding from existing sources of £5.4m, resulting in potential net transitional costs of £3.9m.
- 3.3 Acting on the advice of the Joint Implementation Team the Cabinet agreed that, while work should continue to refine and where possible reduce these cost estimates, the majority were sufficiently robust and the need to spend sufficiently pressing, that spending on net costs amounting to £2.7m be approved. This included £75k of funding previously agreed by the Joint Committee.

- 3.4 The Cabinet noted that there were also activities and costs which were not yet considered urgent/robust and these would be the subject of further reports to Members before significant expenditure was incurred.

#### **4.0 The Funding of Transitional Costs**

- 4.1 The following approach to the funding of transitional costs has been adopted by the existing authorities:

- a) separate budgets for Cheshire East and Cheshire West and 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 and Chester.

- 4.2 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)

- 4.3 It is recognised that the financial position of existing Authorities regarding reserves and cash flow differs and that a pragmatic approach will be required to ensure that an authority does not experience in-year cash flow difficulties or have a negative reserves position at the end of the financial year.

#### **5.0 The Management of Transitional Costs**

- 5.1 Block and Workstream Leads have been empowered to procure and deploy resources as required, to ensure the timely delivery of their agreed work programmes, provided they operate within agreed projected costs and the appropriate financial and procurement procedures. It was agreed that:

- a) where appropriate, each Block and Workstream lead officer was assigned a maximum budget in accordance with agreed costs.
- b) Block and Workstream leads authorise all expenditure against these budgets and report on a regular basis (i.e. quarterly) in a form determined by the Interim Chief Finance Officer, to the JIT and Executive Members.
- c) Block and Workstream leads continue to work with Finance officers to refine and where possible reduce costs and identify further sources of funding.
- d) Given that Block and Workstream leads will now have significant financial responsibility, each area would be assigned a nominated Finance Officer.
- e) Officers will continue to operate under the financial and procurement procedures of their own authority.

- 5.2 There has been a recent change to agreement (e) in light of Legal advice. In line with the Cheshire (Structural Changes) Order 2008 Cheshire East is able to procure and contract in its own name subject to certain criteria. In these circumstances (e) will not be applied, however Cheshire County Council financial and procurement procedures will be applied to ensure that the procurement is conducted on a proper basis.

## **6.0 First Quarter Review of Expenditure to 30 June 2008**

- 6.1 Guidance and monitoring processes were agreed and circulated to all relevant managers in July, with the first quarterly update scheduled for August. During the first quarterly update managers were asked to consider the allocations provided, establish projects and associated plans to deliver the transition activity and develop links with the various supporting Councils, project leads and finance staff.
- 6.2 The first quarter update concluded that the programme agreed, to facilitate a smooth transition, was in place and managers across the Councils are working together to deliver the individual transition projects. There were a few changes to forecasts, with a total forecast net spend remaining at £8.9m across East and West, although a small overspend of £130k was being reported by managers. Managers reported that they were likely to spend the allocations provided by the year end.
- 6.3 As part of the guidance managers have been asked to provide a monthly update where there have been any fundamental or exceptional changes to the programme. If projects are continuing in line with the approved budget, and are on target, no update is required until the next quarterly update.

## **7.0 Changes to the Programme**

- 7.1 Following approval of the budget for transitional costs in June, Members have agreed a number of changes and also the original approval has reduced to reflect a wrongly classified cost that should have been allocated to Cheshire West & Chester. These changes take the total maximum allocated net sum to £4.128m, as shown in table 1 below:

<b>Table 1</b>	<b>Net £000</b>
Original Approval	3,906
Adjustment for Wrongly Classified Cost	(100)
Member Allowances East – P&C	222
Senior Appointments East – P&C	100
<b>Revised Approval</b>	<b>4,128</b>

## 8.0 Mid-Year Review of Expenditure

- 8.1 Block and Workstream Leads and Finance officers have again provided a comprehensive mid year return that has allowed a forecast position to be established. Table 2 below provides a summary.
- 8.2 Spending levels during the first quarter were lower than would have been anticipated, and spending levels remain lower than expected by half way through the year, with spend to date of £1.3m being reported.
- 8.3 This is partly to be expected given that the spending is in preparation for LGR and certain elements can only be incurred during the final quarter. However, it seems likely that final spend will be lower than is currently being forecast. This will either be because projects do not deliver during the latter part of the year resulting in slippage into 2009-10, or activities will be delivered utilising existing capacity available within Councils, or further analysis will determine that certain aspects of the programme will not be necessary.
- 8.4 Within the forecasts, managers have made a number of reductions to forecast activity, but requested that overall cost allocations remain available, pending possible increases in costs and other unforeseen changes.

<b>Table 2</b>	<b>Potential Cost £'000</b>	<b>Forecast £'000</b>	<b>Variance £'000</b>
People	663	645	(18)
Places	0	0	0
Perf & Capacity	1904	1,734	(170)
Customer Access	277	277	0
Appointment of Senior Management	200	200	0
<u>Cross Cutting (50% share)</u>			
Human Resources	135	135	0
ICT & Knowledge Management	949	663	(286)
Information Management	0	0	0
Finance	0	0	0
<b>Total</b>	<b>4,128</b>	<b>3,654</b>	<b>(474)</b>

- 8.5 The majority of changes declared at this stage relate to the ICT programme where reductions have occurred particularly within the Oracle programme. For example a more detailed assessment of the number and complexity of

interfaces required into Oracle have resulted in a lower number of interfaces and a consequent reduction in costs.

- 8.6 Recently as part of data security concerns the Government has created the Government Connect Initiative requiring all public sector organisations to secure their communication methods with Government. No formal estimate has been undertaken at this stage although significant work will be required across all seven Councils in order to allow both new Councils to meet the required standards, with likely costs exceeding £1m. Provisional sums of £1m allocated to adapt ICT systems currently look like that they will not be required to adapt systems between now and March 2009. This allocation will be retained within the cost allocation and once reviewed could be utilised to fund the improvements required to secure communication channels.
- 8.7 Originally all redundancy costs were expected to be incurred during 2009-10. Following decisions across all existing Councils, it is anticipated that a number of voluntary redundancies, related to LGR, will be approved and will occur during 2008-09. Estimates of costs are not known at this stage. Further information will be provided as soon as it is available.
- 8.8 In addition to the £4.1m now allocated for transitional costs, the four Councils have identified a further £5.4m of existing sources of funding to support the programme taking the gross costs during 2008-09 to £9.5m. The funding remains available although, where funding is in the form of staff time and that time is not utilised through the year, less capacity, and therefore funding, will be available later in the year. This is an issue raised within the ICT and Knowledge Management part of the programme.
- 8.9 The following recent decisions and additional requirements will impact on the Transitional Cost position for the 3<sup>rd</sup> Quarter:
- Petition for Borough Status
  - Production of a Coat of Arms
  - Cheshire East Review of Back Office Services
  - Recruitment within Places structure

As with existing identified Transitional Costs, existing resources will be identified, where possible, for any additional costs. If additional funding is required approval will be requested in the 3<sup>rd</sup> Quarter report.

## **9.0 Financial Implications 2009/10 and beyond**

- 9.1 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.
- 9.2 This report focuses primarily on transitional costs in 2008-09 (i.e. up to 1<sup>st</sup> April 2009) but some slippage of expenditure into 2009-10 is likely. Some activities such as the adaptation of properties and ICT systems will continue beyond 1<sup>st</sup> 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.

- 9.3 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.

## **10.0 Legal Implications**

- 10.1 The Cheshire (Structural Changes) Order 2008 Article 9 (7) indicates that:

*The total of the expenditure properly incurred by the shadow authorities shall be divided among, and paid by, the County Council, the East Cheshire councils and the West Cheshire councils in such proportion as may be agreed between them.*

Details of the agreement are provided in Section 4.

- 10.2 Also under Article 9 of the Cheshire (Structural Changes) Order 2008 Cheshire East has power to contract, subject to meeting the criteria stated there. This is because the power is being exercised in the discharge of the functions set out in the Order, and in the same manner and subject to the same conditions and limitations as would apply to a non-metropolitan county or district council.

## **11.0 Risk Assessment**

- 11.1 '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 1<sup>st</sup> April 2009 and beyond and could prove a false economy if it resulted in higher costs post 1<sup>st</sup> 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.

## **12.0 Conclusion and Reasons for Recommendation**

- 12.1 Transitional costs are projected to be broadly in line with agreed potential costs. However, it is too early to make firm predictions and there is some evidence of slippage. It was always envisaged that transitional costs would need to be revised in light of experience and further information and some provision for this was made within the figures. While several amendments to the approved budget have already been agreed by Members no further requests have been

made at the mid-year position. Any additional cost requests will be included in the 3<sup>rd</sup> quarter report.

***For further information:***

*Portfolio Holder: Councillor F Keegan*  
*Officer: Lisa Quinn, Interim Chief Finance Officer*  
*Tel No: 01625 504801*  
*Email: [l.quinn@macclesfield.gov.uk](mailto:l.quinn@macclesfield.gov.uk)*

***Background Documents:***

*Joint Committee Report – Management and Funding of Transitional Costs – 6<sup>th</sup> May 2008*  
*Cabinet Report – Management and Funding of Transitional Costs – 16<sup>th</sup> June 2008*

*Documents are available for inspection at:*

*Cheshire East Democratic Services*  
*Westfields*  
*Middlewich Road*  
*Sandbach*  
*CW11 1HZ*