

CHESHIRE EAST COUNCIL

Cabinet

Date of meeting: 6th January 2009
Report of: Borough Treasurer & Head of Assets
Title: Disaggregation of Cheshire County Council Balance Sheet

1.0 Purpose of Report

- 1.1 The County Council's assets and liabilities, as at 31/03/09, need to be allocated to the two new Councils on a fair, equitable and transparent basis.
- 1.2 The balance sheet by its very nature will not be finalised until the County Council's accounts are closed for 2008/09 (September 2009). Hence the 2007/08 balance sheet position has been used as a basis for agreeing the principles by which the assets and liabilities will be distributed. The final numbers will not be known until later, but this in itself does not affect the ability of both Councils to agree a basis of allocation.
- 1.3 The Department for Communities and Local Government (DCLG) set out guidelines for the process and a date for local agreement to be achieved by 31st December 2008.
- 1.4 A progress report went to Cheshire East Cabinet on 4th November 2008, which delegated the agreement of the Cheshire County Council Balance Sheet disaggregation package to the Chief Finance Officer (S151 Officer) in consultation with the Portfolio Holder for Resources, the Leader and the other Performance & Capacity Portfolio Holders.
- 1.5 A further report went to Cheshire East Cabinet on 17th December 2008, which agreed that:
 1. Cheshire West & Chester Council will be responsible for the Closure of Accounts for Cheshire County Council for 2008/09 and Cheshire East Council will be responsible for the Closure of Accounts for the Districts in the Cheshire East area for 2008/09.
 2. Cheshire West & Chester Council as nominated authority will hold on trust for itself and Cheshire East Council the reserves of Cheshire County Council up to the date agreed by the successor Councils.
 3. The arrangements detailed in the report for the role of the caretaker authority are adopted.

4. The organisations detailed in the report are identified to arbitrate in the event that an agreement is not reached by 31st December 2008.
- 1.6 This report details the agreement that has been reached between Cheshire East Council and Cheshire West & Chester Council with regard to the disaggregation of the Cheshire County Council balance sheet, in accordance with the DCLG deadline of 31st December 2008.
- 1.7 The report also sets out the work that still needs to be completed in order to achieve a full Local Agreement by 31st March 2009.

2.0 Decision Required

- 2.1 To note the agreement made between Cheshire East Council and Cheshire West & Chester Council submitted to DCLG on 19th December 2008 with regard to the disaggregation of Cheshire County Council's balance sheet (as detailed in Section 5).
- 2.2 To confirm that the delegation of the local agreement of the County Balance Sheet disaggregation package, to the Borough Treasurer & Head of Assets, in consultation with the Portfolio Holder for Resources, the Leader and the other Performance and Capacity Portfolio Holders, will continue up to 31st March 2009.

3.0 Financial Implications for Transitional Costs

- 3.1 There are no implications for transitional costs in 2008-09 providing that arbitration is not required. In the event that arbitration is required the costs would be split between Cheshire East Council and Cheshire West & Chester Council in an agreed proportion. Existing Finance staffing resources are being allocated to analyse the balance sheet entries and the proposed disaggregation bases.

4.0 Financial Implications 2009/10 and Beyond

- 4.1 The disaggregation of the County Balance Sheet and the aggregation of the District balance sheets form the opening financial position for the new authority. It is therefore very important that the disaggregation is done on an equitable and robust basis to ensure that Cheshire East and Cheshire West & Chester inherit the appropriate balance sheet position.
- 4.2 The balance sheet position for each authority will be finalised following the publication of the Statement of Accounts for each existing authority at the end of September 2009. However, some of the agreements made between the two Councils as part of this exercise will extend beyond this deadline e.g. agreements on the ongoing ownership and management of shared assets.

5.0 Agreement Submitted to DCLG

- 5.1 The County Council's balance sheet at 31/03/08 contained £1.288bn of assets, and £831m of liabilities giving a net worth of £457m. The exercise of disaggregating the balance sheet is therefore a significant exercise both in terms of workload but also impact on the financial health of the new Authorities.
- 5.2 Considerable progress has been made on this exercise. County Council officers have independently analysed the balance sheet and its links to the two new Councils. The County Finance Officer has taken on the role of 'Honest Broker' and made recommendations to the Interim Chief Finance Officers of both Cheshire East and Cheshire West and Chester.
- 5.3 The balance sheet is a complex statement and as such a number of different approaches have been used to classify areas of the balance sheet into:
- A tangible asset to be allocated to one or other Authority.
 - 'Real cash' (i.e. Reserves)
 - Accounting or notional areas
 - Year end issues (i.e. debtors and creditors) – which are time limited in their nature and relate predominantly to cash flow.
- 5.4 Agreements have now been reached on the vast majority of the categories on the County Council's balance sheet and considerable progress made on the outstanding items. This position was agreed at a meeting on 19th December 2008 between the relevant Portfolio Holders for Cheshire East Council and Cheshire West & Chester Council, the interim Chief Finance Officers and the relevant supporting officers.
- 5.5 The County Finance Officer submitted a letter to DCLG on 19th December 2008 detailing the significant progress made and the work still to be completed ahead of 31st March 2009. This complies with Regulation 13 of the Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008, which provides that:
- 'where no agreement has been reached in relation to the transfer of particular property, rights or liabilities by the date that falls three months before the reorganisation date (31 December 2008 in the case of authorities affected by existing section 7 orders), transfer is to one or more caretaker councils on the reorganisation date. Successor councils must continue to use their best endeavours to reach agreement before the reorganisation date.'*
- 5.6 The letter states that both Councils are confident that a full Local Agreement will be in place prior to 31st March 2009 (or earlier) on the outstanding issues. It is anticipated that there will be little or no need for arbitration, however, if any matters were to require this facility the arrangements are in place as detailed in the report to Cheshire East Cabinet on 17th December 2008.
- 5.7 Local agreements have been reached on the principles to be applied to disaggregate the vast majority of the individual components of the balance sheet, including major categories such as Operational Properties (Schools, Libraries etc), Infrastructure (Roads, Bridges etc), Vehicles, Furniture &

Equipment, Liabilities such as Long Term Borrowing through to Earmarked Reserves. Agreement has also been reached as to how the significant level of Debtors and Creditors associated with the County Council at 31st March 2009 will be dealt with. Cheshire West & Chester will be the nominated Council which takes responsibility for this activity.

6.0 Areas Requiring Formal Agreement by 31st March 2009

6.1 There are some areas of the County balance sheet where significant progress has been made but a formal agreement is not yet in place:

- **Administrative Buildings** – Whilst most of the Councils c600 buildings have been allocated on an agreed basis of disaggregation, a small number of Administrative Buildings (8 properties) which are used to provide services to the whole of Cheshire remain under negotiation. Work is progressing well with independent valuations undertaken and usage identified. Negotiations are continuing on how these may be jointly owned, how they link to developing property strategies for the new Councils, and the management of any associated disposal / exit strategy.
- **Countywide Buildings** – A small number of properties (11 in total) currently provide direct services to the entire County of Cheshire. The balance sheet treatment of these is currently being developed alongside other service delivery (i.e. joint arrangement) and budget considerations.
- **Capital Reserve** – This reserve exists to support past and ongoing capital schemes started by the County Council. A majority of the schemes assumed to be temporarily funded from this reserve on vesting day have been allocated to one or other new Council. However the treatment of two key items is still being considered, this involves the timing of a potential capital receipt and the risk involved in grant funding being received.
- **Insurance Reserve** – This is still being considered, including how any surplus / deficits on the reserve are split between the new Councils.
- **General Reserves** – A number of possible methods have been considered. However this is likely to be the final item to be agreed once negotiations on the other areas have concluded.

6.2 It should be noted for these few residual items proposals have been prepared and initial discussion taken place in all cases. The two Councils are therefore confident that these residual items will be resolved by 31st March 2009 at the latest, with the aim locally of resolving them as soon as possible in the New Year, bearing in mind the potential linkages with other key financial priorities such as budget setting for 2009/10.

7.0 Legal Implications

7.1 The disaggregation of the County Balance Sheet is being conducted in accordance with the Local Government (Structural Changes) (Transfer of

Functions, Property, Rights and Liabilities) Regulations 2008. This includes the role of the 'nominated' authority in terms of the vesting of Cheshire County Council reserves and the role of 'caretaker' authority in terms of any residual matters. Both roles are being considered as part of the disaggregation exercise.

- 9.2 There are likely to be a number of arrangements agreed as part of the disaggregation exercise that will require a formal agreement. The required agreements will be identified as part of the work to be completed by 31st March 2009.

9.0 Risk Assessment

- 9.1 If the disaggregation of the County Balance Sheet is in dispute, in line with the Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008, DCLG will take the dispute to arbitration. However, the work that has been described in this report demonstrates that plans are in place to achieve agreement by 31st March 2009.
- 9.2 Due to the complex nature of this major exercise the allocation of each element of the Balance Sheet requires detailed analysis which causes a risk to the achievement of the 31st March 2009 deadline and the accuracy of the final position. However, the work that has been described in this report demonstrates that the exercise is being conducted on a planned and robust basis with oversight from the County's 'Honest Broker', the Chief Finance Officers and the relevant Portfolio Holders from each shadow authority.
- 9.3 The main revenue reserve on the County Balance Sheet is the County Fund. In the current financial year, the lead up year, the County Fund is being used to fund the County's share of net Transitional Costs. If costs exceed the current agreed allocations for each authority the share of the County Fund could be less than forecast, which could impact on the adequacy of reserves in 2009/10. However, Transitional Costs are being closely managed on a joint basis to ensure that costs are minimised where possible and afforded from existing resources where available.

10.0 Conclusion and Reasons for Recommendation

- 10.1 This report demonstrates the significant progress that has been made in agreeing the disaggregation of the Cheshire County Council balance sheet. The DCLG deadline of 31st December 2008 has been complied with in accordance with Regulation 13 of the Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008.
- 10.2 The report sets out the work that is still to be completed in the New Year in order to reach a full Local Agreement by 31st March 2009. In each area to be finalised, significant progress has already been made to date and the main principles of disaggregation have been agreed in each case.
- 10.3 The report also seeks confirmation that the agreement of the County Balance Sheet package is delegated to the Borough Treasurer & Head of Assets in

consultation with the Portfolio Holder for Resources, the Leader and other Performance and Capacity portfolio holders up to 31st March 2009.

- 10.4 A further report will be brought to Cabinet on conclusion of the final Local Agreement.

For further information:

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Background Documents:

Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008

Documents are available for inspection at:

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Westfields
Middlewich Road
Sandbach
CW11 1HZ*