CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Corporate Scrutiny Committee**
held on Friday, 3rd February, 2012 at Executive Meeting Room 1 - Town Hall, Macclesfield SK10 1DX

PRESENT

Councillor J P Findlow (Chairman)
Councillor D Newton (Vice-Chairman)

Councillors G Baxendale, B Burkhill, S Corcoran, B Moran, D Neilson and D Topping

Apologies

Councillors W S Davies and G Wait

169 APOLOGIES FOR ABSENCE

170 OFFICERS PRESENT

Lisa Quinn – Director of Finance and Business Services.

Mark Nedderman – Senior Scrutiny Officer

171 MINUTES OF PREVIOUS MEETING

RESOLVED – That the minutes of the meeting held on 10 January 2012 be confirmed as a correct record and signed by the Chairman.

172 DECLARATIONS OF INTEREST

There were no declarations of interest.

173 PUBLIC SPEAKING TIME/OPEN SESSION

There were no members of the public present who wished to address the committee.

174 QUARTER 3 FINANCE/PERFORMANCE REPORT

The Committee considered a joint report of the Director of Finance and Business Services and Places and Organisational Capacity summarising the financial and non- financial performance of the Council at the three year review stage of 2011/12.

Annex 1 of the report provided an update on the overall Financial Stability of the Council, including the positions on Grants, Council Tax and Business Rates, Treasury Management, Centrally held budgets, and the Management of the Council's Reserves.

Annex 2 provided projections of service financial performance for the 2011-12 financial year. It focused on the key financial pressures which the Council's services were facing, and areas of high financial risk to the Council, and highlighted significant changes to forecasts since the mid year review.

Annex 3 provided a summary of the key performance headlines at the end of Quarter Three.

The Director of Finance and Business Services drew attention to key points that had emerged at the three quarter year stage, which were expanded upon in the report and which centred around:

Service Revenue Outturn

- The Council was forecasting an £11m overspend against services' budgets.
- Around £4m of this could be mitigated by a capital financing under-spend, surplus grants, and capitalisation of VR costs.
- The Council was seeking to identify further significant remedial actions to address the net £7m budget shortfall.

Reserves

- Together with the budgeted contribution to balances, and other items including surplus earmarked reserves, it was estimated that the level of general reserves at 31st March 2012 would be approximately £13.2m, before the impact of any further remedial measures were taken into account. The 2011-14 Reserves Strategy included an original forecast reserves position as at 31st March 2012 of £15m with a risk assessed minimum level of £14.7m.

Capital Programme

- The forecast variance from budget of £16m in 2011-12 was largely explained by slippage, with costs being re-phased to future years.

Debt

- Outstanding debt over 6 months old remained at around £2m.

Performance

- From the retained former statutory indicators (National Indicators and Best Value Performance Indicators) reported corporately during the first three quarters of the year, 50% of measures were reported as performing below target and agreed tolerances.

Questions

The following responses were given in respect of a number of questions raised by Members:

- The Council cautiously planned for a Council Tax collection rate of 99%. In fact the Council actually collected in excess of 99.5% but always pursued the 100% that was billed. If less than expected was collected, and was a significant figure, the shortfall was collected from the precepting authorities. If there was a significant surplus, it was shared amongst the precepting authorities. The Collection Fund was managed in such a way that the balance was as close to nil as possible.

- Information regarding the current rules with regard to Business Rates or empty business premises would be circulated to Members outside of the meeting

- Actuarial charges of £3.9m referred to in paragraph 33 on page 15 of the report, related to the pension fund liability brought about by staffing reductions. The actuarial payments compensated the pension fund for contributions lost due to the release of some individuals. Payments to the pension fund were made over five years.

- Capitalisation of VR (Voluntary Redundancy) costs was sustainable as the intention was to fund the capitalisation of VR costs by applying available capital receipts. This was a prudent way of dealing with the up-front costs of redundancies. The pay-back period for the costs of staffing reductions had tended to be well within two years.

- The current position on the increment freeze involved a 1 year freeze to be reviewed with a view to moving to a performance related scheme, subject to consultation with trade unions.

- Due to funding by Capital Receipts, VR costs would be afforded within one financial year. Capitalisation of redundancy costs, in the past, had been viewed as a last resort. However, in 2011/12 the Government recognised the difficulties faced by LA's in delivering against the Comprehensive Spending Review cuts and therefore boosted the level of the redundancy capitalisation mechanism. Under the current situation, service areas could not absorb all of the additional costs of redundancies and the Council had to be cautious with the reserves position, therefore, the Council applied for a capitalisation direction of just in excess of £3m, which had been approved by DCLG.

- The impact of school redundancies was covered in para 13, page 23 of the report. The Council was concerned about the pension liability resulting from school redundancies and was pursuing the matter vigorously through the Schools Forum.

- Exceptional inflation e.g. related to oil prices, over and above the planned position, would have to be dealt with by use of reserves after the achievement of mitigating savings where possible. The Reserves Strategy included a fully risk assessment that was intended to deal with such exceptional situations. This was known as the risk assessed minimum level of reserves.

- The redundancies outlined in paragraph 38 on page 16 had been financially justified as they had been dealt with in the same way as all business cases made for staffing reductions. The figures reported to Cabinet, and in this case the Joint Committee, always included the pension costs, which were budgeted for centrally. Pay back was calculated against the total cost of redundancy, including pension costs. The split of the upfront costs and pension costs would be provided separately.

- In connection International Financial Reporting Standards, the Finance Team had been trained, and would continue to be trained appropriately, but the situation reported by the Audit Commission with regard to the audit for the 2010/11 accounts had been exacerbated by the introduction of a new ORACLE system and revenue and benefits system. This was acknowledged by the Audit Commission in the Annual Audit Letter and the result was a clean audit and a good value for money conclusion. It was also noted that Members had been included in some of the briefing/training sessions.

- A new risk assessment had been carried out on the minimum level of reserves as part of the updated Reserves Strategy that would be reported to Cabinet on 6th February as part of the Council's Business Plan. The figure was still close to the £14.7 million, now £15m, but was based on an up to date assessment of risk. The Council also had to bear in mind from a sustainability point of view, the uncertain position from 2013/14 onwards.

- The 3rd quarter projection was a realistic projection. The Services were still aiming for improvement beyond the 3rd Quarter position but it was not advisable to count on this outcome given the uncertainty of the final quarter e.g. severe weather impact.

- A breakdown of the £2.4 million contribution of earmarked reserves referred to on page 46 was provided at the mid-year point but, as the figure has increased at the 3rd Quarter point, an updated breakdown would be provided separately.

- Additional costs in connection with the Waste PFI project had been incurred during 2011/12, such as the legal challenge. A summary breakdown would be provided separately.

- Details of the earmarked reserves referred to on page 22, paragraphs 5 and 7 would be provided separately.

RESOLVED –That the report be received and noted.

175 **WORK PROGRAMME PROGRESS REPORT**

The Committee reviewed the work programme for 2011/2012.

RESOLVED – That the report be received.

176 **REVIEW OF GOVERNANCE ARRANGEMENTS**

The Senior Scrutiny Officer reported that the Constitution Committee at its meeting held on 26 January 2011 had supported the recommendation of this Committee from its meeting held on 10 January 2010 to set up a joint Member working group to review governance arrangements in Cheshire East. The working group would consist of 10 Members on a cross party basis.

RESOLVED – That the proposals to review governance arrangements at the Council be noted.

177 **FORWARD PLAN - EXTRACTS**

The Committee considered items listed in the current forward plan.

RESOLVED – That the Forward Plan be received and noted.

The meeting commenced at 10.30 am and concluded at 11.50 am

Councillor J P Findlow (Chairman)