

CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting: 11th August 2009
Report of: Borough Treasurer and Head of Assets
Subject/Title: Review of Transitional Costs at Outturn
Portfolio Holder: Cllr Frank Keegan

1.0 Report Summary

- 1.1 The report considers the outcome of the 2008/09 outturn position for transitional costs, excluding severance.
- 1.2 This report provides details of the final 2008/09 outturn position for transitional costs and sources of funding for Cheshire East. It provides information on a number of changes since the Three Quarter Year Review. It also identifies issues regarding changing patterns of expenditure, and the comparison of costs spent on behalf of Cheshire East based upon agreed sharing principles, with the actual costs incurred by the individual Councils in 2008/09. It identifies the requirement to adjust for this difference in costs as part of the disaggregation of the Cheshire County Council balance sheet. This is the fourth full review of the programme since the budget was approved by Cabinet in June 2008.

2.0 Decision Requested

- 2.1 Members are asked to note the final 2008/09 position on transitional costs at Outturn.

3.0 Reasons for Recommendations

- 3.1 This report summarises the outturn position for transitional costs for 2008/09 with some variances from the projections at the three quarter year review position. In disaggregating the County Council's Balance Sheet the relative expenditure and funding will be taken into account to ensure a fair and appropriate allocation in accordance with the cost sharing methodology agreed below.

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 Not applicable

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

7.1 See section 8.0 below.

8.0 The Funding of Transitional Costs

8.1 The following approach to the funding of transitional costs was adopted by the demising authorities:

- a) separate budgets for Cheshire East and Cheshire West and Chester to reflect the fact that the two Shadow Authorities would in some areas adopt different policies and approaches with different cost implications.
- b) where it is necessary to share arrangements, shared budgets split equally between the two Councils.
- 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.

8.2 This approach resulted in the following cost-sharing proportions:

Cheshire County Council	45%	(East and West)
Congleton Borough Council	13.6%	(East only)
Crewe & Nantwich Borough Council	15.7%	(East only)
Macclesfield Borough Council	25.7%	(East only)

8.3 It was recognised that the financial position of existing Authorities regarding reserves and cash flow differs and therefore a pragmatic approach was taken to ensure that an Authority did not experience cash flow difficulties or have a negative reserves position at the end of the financial year.

8.4 As a result a significant proportion of the costs, higher than the agreed 45%, has been incurred during 2008/09 by the County Council on behalf of the District councils. The costs incurred will now be reallocated between the two new authorities based upon the above cost sharing proportions as part of the balance sheet disaggregation exercise.

9.0 The Management of Transitional Costs

- 9.1 Block and Workstream Leads, and appointed managers, were empowered to procure and deploy resources as required, to ensure the timely delivery of their agreed work programmes, provided they operated within agreed budgets and the appropriate financial and procurement procedures. A range of operating principles and procedures were also agreed including nominated block, project and finance leads.

10.0 First Quarter Review and Changes Approved

- 10.1 Following the approved guidance and processes, the first quarter update concluded that the programme agreed, to facilitate a smooth transition, was in place and managers across the Councils were 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 the 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.
- 10.2 Following approval of the budget for transitional costs in June 2008, Members agreed a number of changes, which took the total maximum allocated net sum to £4.1m.

11.0 Three Quarter Year Review of Expenditure

- 11.1 At the Three Quarter Year Review, managers were forecasting net spending levels of £4.050m against the approved allocation of £4.088m. Table 1 below provides a summary.

Table 1	Net Budget	Forecast	Variance
	£'000	£'000	£'000
People	663	280	(383)
Places	0	0	0
Performance & Capacity	1,904	1,756	(148)
HR - Appointment of key senior positions	200	680	480
<u>Cross Cutting (50% share)</u>			
Human Resources	135	146	11
ICT & Knowledge Management	950	961	11
Finance	(41)	0	41
Information Management	0	0	0
Customer Access	277	227	(50)
Total	4,088	4,050	(38)

12.0 Outturn Expenditure position

12.1 At outturn the actual expenditure is £3.462m against the approved allocation of £4.088m, a reduction of £588k since the forecast at Three Quarter Year Review. Table 2 below provides a summary.

Table 2	Gross Budget	Funding	Net Budget	Gross Actual	Actual Funding	Net Actual	Net Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
People	698	35	663	161	161	0	(663)
Places	110	110	0	3	0	3	3
Performance & Capacity	2,808	904	1,904	2,309	512	1,797	(107)
HR - Appointment of key senior positions	200	0	200	750	0	750	550
<u>Cross Cutting (50% share)</u>							
Human Resources	148	13	135	138	0	138	3
ICT & Knowledge Management	4,223	3,273	950	2,039	1,348	691	(259)
Finance	126	167	(41)	83	83	0	41
Information Management	499	499	0	355	355	0	0
Customer Access	657	380	277	83	0	83	(194)
Total	9,469	5,381	4,088	5,921	2,459	3,462	(626)

12.2 There has been a reduction in the forecast spend in a number of areas:

- People have spent £280k less than the forecast at Three Quarter Review (TQR).
- ICT and Knowledge management have spent £270k less than forecast at TQR.
- Customer Access have spent £144k less than forecast at TQR.

12.3 These under spends have been partially offset by increased expenditure in other areas:

- Performance and Capacity have spent £41k more than the forecast due to higher than estimated elections expenditure offset by lower than estimated expenditure on support for members.
- HR has spent £63k more than the forecast at TQR, due to higher costs on the appointment of key senior positions.

12.4 In order to ensure that no authority experienced cash flow difficulties or negative reserve positions at the end of 2008/09, the County Council incurred costs in respect of Cheshire East district Councils of £2.034m as well as its own costs of £2.664m. As part of the disaggregation of the County balance sheet in 2009/10 an adjustment will take place to reallocate the amounts incurred on behalf of both Cheshire West and Chester and Chester East to the two new authorities.

13.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)

- 13.1 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.
- 13.2 This report focuses primarily on transitional costs in 2008-09 (i.e. up to 1st April 2009) but there will be additional costs setting up the new Councils. 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.
- 13.3 Approximately £2.3m 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. At year end, within the total gross actual spend by Cheshire East of £5.921m, £1.540m was capital expenditure, and capital funding of £1.284m was used to bring the net capital cost funded by reserves to £256k.

14.0 Legal Implications (Authorised by the Borough Solicitor)

- 14.1 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 8.

15.0 Risk Management

- 15.1 No issues.

16.0 Background and Options

- 16.1 In April 2008 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 for Cheshire East and Cheshire West and Chester.

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.

- 16.2 Revised proposals from Block and Workstream Leads were considered by the 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. Similar levels of funding and costs had been identified and agreed for Cheshire West and Chester.

17.0 Overview of Year One and Term One Issues

- 17.1 Please see section 13 above.

18.0 Access to Information

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

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