

# CHESHIRE EAST COUNCIL

## REPORT TO: CABINET

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**Date of Meeting:** 11<sup>th</sup> August 2009  
**Report of:** Borough Treasurer and Head of Assets  
**Subject/Title:** Financial Update – Quarter 1 (Emerging Pressures)  
**Portfolio Holder:** Cllr Frank Keegan

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### **1.0 Report Summary**

- 1.1 This report advises Cabinet of emerging financial pressures in the first quarter of the 2009-10 financial year.
- 1.2 The report particularly focuses upon areas of high financial risk to the Council and includes updates on Treasury Management, the Capital Programme, in-year collection rates for Council Tax and Business Rates and an update on the Reserves strategy.

### **2.0 Decision Requested**

- 2.1 Cabinet is requested to note and comment as appropriate on the following:
- emerging pressures on the Council's revenue budget in the first quarter of 2009-10, detailed in Section 11 and the proposed remedial action.
  - the Treasury Management update detailed in Section 12
  - the Council's in-year collection rates for Council Tax and Business Rates, detailed in Section 13
  - Progress to date on delivering the 2009-10 capital programme, detailed in Section 14
  - Schemes on the capital project deferred list, as shown in Appendix 7
  - An update on the joint Waste PFI scheme, as shown in Appendix 2
  - Delegated Decisions approved by Directors, as shown in Appendix 4
  - the updated Reserves position detailed in Section 15 and Appendix 8
- 2.2 Cabinet is requested to approve the following:
- The revised in-year capital budget for 2009-10 as set out in Section 14, including;
    - Supplementary Capital Estimates (SCE)/Virements over £100,000 and up to and including £500,000, as shown in Appendix 3; (in future these will be approved by Directors, under delegated powers in consultation with the relevant Cabinet Member and Cabinet Member for Resources);
    - Supplementary Capital Estimates (SCE)/Virements over £500,000 and up to and including £1.0m, as shown in Appendix 3;

- Reductions in approved budgets, as shown in Appendix 5;
- Changes in funding sources, as shown in Appendix 6;

2.3 Cabinet is requested to recommend to Council the following supplementary estimates exceeding £1m:

- A Supplementary Capital Estimate of £1,150,000 for the Modernisation Grant 09/10 as detailed in Appendix 3 of the report.
- A Supplementary Capital Estimate of £2,227,195 for the Devolved Formula Capital Grant in Advance as detailed in Appendix 3 of the report.

2.4 Cabinet is requested to recommend to Council that Cheshire East Borough Council enters into a partnership with Cheshire West & Chester Borough Council and Warrington Council to deliver a sub regional Future Jobs fund programme and approves the Supplementary Revenue Estimate of £1.440m, as detailed in Section 11, paragraphs 11.2.25 – 11.2.27 of the report.

### **3.0 Reasons for Recommendations**

3.1 This is the first budget of Cheshire East Council with a number of significant challenges, in accordance with good practice members should receive a quarterly report on the financial position of the Council. This is the first report for the 2009-10 financial year.

### **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 None.

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

7.1 None.

### **8.0 Financial Implications 2009-10 and beyond (Authorised by the Borough Treasurer)**

8.1 As covered in the report.

## **9.0 Legal Implications (Authorised by the Borough Solicitor)**

- 9.1 There are no specific legal implications related to the issues raised in this report.

## **10.0 Risk Management**

- 10.1 Financial risks are assessed on a regular basis and will be reported to members quarterly. Remedial action will be taken if and when required. Section 15 of this report updates the financial risk assessment reported to Council when the 2009-10 budget was set in February.

## **11.0 Revenue Budget 2009-10**

### **11.1 PEOPLE DIRECTORATE**

- 11.1.1 The Directorate is facing extensive emerging pressures with a projected potential impact in 2009/10 of £4.7m. These primarily arise from external sources, particularly within Children and Families with increased numbers of children being looked after. Delivering the budget reductions planned for 2009-10 is also presenting challenges as Services continue to be established, with particular pressure being experienced within Health and Wellbeing.

### **Summary Figures**

<b>Service</b>	<b>Net Budget £000</b>	<b>Budgeted Savings £000</b>	<b>Emerging * Pressures £000</b>
<b>Children and Families</b>	<b>35,251</b>	<b>298</b>	<b>3,200</b>
<b>Adults</b>	<b>72,237</b>	<b>3,923</b>	<b>500</b>
<b>Health and Wellbeing</b>	<b>15,276</b>	<b>1,153</b>	<b>1,000</b>
<b>Total</b>	<b>122,764</b>	<b>5,374</b>	<b>4,700</b>

\* Figures show projected potential impact in 2009/10.

### **Impact from the 2008-09 Outturn**

- 11.1.2 The County Council's outturn generated an under spend of over £12m on services linked to the People's Directorate, the largest proportion of which relates to unused grants returned to reserves of approximately £8m. A change in accounting practice surrounding accruing for pay and expenses has also contributed to this under spend. Finally, partly as a result of LGR, but also partly related to underlying trends, under spends and reduced overspends were reported in a number of areas, with the majority already factored into the 2009-10 base budgets. There will be a small positive impact on the 2009-10 budget overall but it is estimated to be no more than £0.2m to £0.3m.

## **Delivering the Budget / Emerging Pressures**

### **Children and Families (£3.2m overspend)**

- 11.1.3 Whilst the overspend on Children's Social Care was reducing towards the latter part of 2008-09, primarily due to one off grant surpluses, the impact of national and local pressures (such as for example the Baby Peter case) has resulted in a 20% increase in looked after children (LAC) since January, with an early estimate forecasting a £2.1m overspend at year end. Linked and associated with increased LAC numbers, an over spend on the Children's Social Care staffing of £0.5m is anticipated. This is the largest pressure being experienced within the Department at the current time.
- 11.1.4 Home to School transport contracts are renewed annually to reflect changing travel requirements arising from the new school year and more precise forecasts only become available in the autumn. However, based on the historic costs compared to the current year budget, a shortfall of £0.5m is anticipated.
- 11.1.5 The School Catering Service, with an annual turnover of £7m, is anticipating a small overspend of £0.1m, related in part to continued difficulties maintaining income levels.

### **Adults (£0.5m overspend)**

- 11.1.6 The Social Care Redesign transformation plans, which form a major element of the budget reductions this year of £3.9m, are continuing to gather momentum. This initiative is supported, following Member approval, by £6.9m of social care grants, which will facilitate delivery, for example contributing towards redundancy costs. Good progress is being made on a number of elements of the transformation, with the staffing changes within Provider Service contributing to the planned reductions.
- 11.1.7 Inherited care costs across Adults, for example within the Learning Disability (LD) Pool are adding significant pressures to the budget. The pool which is shared by the Central and Eastern PCT, West Cheshire PCT, Cheshire West & Chester and Cheshire East has £4m of budgetary pressures and target savings in excess of £4m aiming to remain within existing resources. There have been concerns about the management of the LD Pool, but a simple cash limited approach has been agreed, which passes the risk to the partners, with potential pressures within the Service. Across care costs, accessing accurate trend information is challenging, although from the information available the current anticipated impact of the spending pressure is likely to be £0.5m.
- 11.1.8 Other pressures around Reablement, Family Based Carers and the Community Equipment Store are being experienced, with no current forecast, but this could change as managers gain a better understanding of their budgets.

## **Health and Wellbeing (£1.0m overspend)**

- 11.1.9 The Service is making progress towards delivering the £0.5m restructuring budget reduction for 2009-10, but is facing significant challenges delivering these reductions. Continued work is in hand to review the staffing structures aiming to deliver as much of the target reduction as possible, although at this point in time a shortfall of £0.3m is being forecast.
- 11.1.10 There are substantial difficulties delivering the £0.1m supplies and services budget reductions at the Lyceum, because a large proportion of this budget area is used to fund payments to play producers, which is directly linked to production income. Whilst other budget reductions are being explored a shortfall is still anticipated.
- 11.1.11 Library and Leisure income have both fallen, with a £0.2m shortfall (£0.1m from each) anticipated. Falling income levels and an inability to achieve ambitious income targets were issues for the predecessor Councils, with the current financial climate exacerbating the situation. The Swim Free Initiative is unbudgeted and anticipated to result in a shortfall of £0.1m for the year.
- 11.1.12 Finally energy and other premises costs have continued to rise above budgeted levels, with an anticipated shortfall of £0.2m and other general pressures such as the Macclesfield Fun Day (£15k) and grants generally making up the balance of £0.1m.

## **Action Planning**

- 11.1.13 Whilst continuing to maintain a tight control of expenditure is helping to mitigate some of the above spending pressure, it will only make a small overall contribution. More significant options are being considered and developed, including contributing to the emerging transformation agenda which will help to develop wider strategic change across the Directorate. It is likely that the options being considered will have a part year effect during the remainder of this year with the full year impact being felt next year, which should help contribute to delivering not only this year's but also next year's budgets.
- 11.1.14 Across the Directorate remedial measures are being considered that will help to reduce the current forecast, through for example, developing the in house foster care agency to reduce unit costs, reducing grounds maintenance costs across leisure facilities and reviewing the provision of transport to adults. Further remedial measures will need to be considered and developed to help reduce the emerging pressures.

## **Conclusion**

- 11.1.15 There are significant emerging budgetary pressures being experienced across the Directorate, especially within Children and Families following the impact of Baby Peter on care practice within the Service. Whilst these pressures are emerging and as such likely to be worst case forecasts, the

significance is such that action must be taken. Managers are continuing to maintain a tight discipline on expenditure, which operated following LGR, but are also considering the viability of a range of other options that will require Member consideration once worked up. It is likely that such options, once approved and implemented, will not only help in contributing towards delivering a smaller overspend this year but also contribute towards delivering next year's budget and support the wider transformation agenda.

## 11.2 PLACES DIRECTORATE

11.2.1 The Places Directorate has an approved net budget for 2009-10 of £50m against which at this stage in the financial year it is reporting emerging pressures with a projected net impact of £2.9m at year end. It should be highlighted that this includes a favourable pay variance of £0.869m (projected underspend), which is based on the current "As Is" staffing levels continuing through to March 2010. However, as the new Places Directorate structures are populated this position will vary.

11.2.2 As part of the budget determination for 2009-10, £7.4m in savings were included across Places Services budgets. Whilst good progress is being made in realising many of the cost saving/ efficiency items, the report describes the challenges of managing certain cost pressures (e.g. in waste disposal) and also the adverse effects on income levels due to the economic downturn. The following table provides the annual projected impact of emerging issues in 2009-10.

### Summary Figures 2009-10

Service	Net Budget £000	Budgeted Savings £000	Emerging* Pressures £000
Environmental Services	31,053	5,467	2,515
Safer & Stronger Communities	5,487	348	47
Planning & Policy	3,666	518	557
Regeneration	9,867	1,111	(237)
<b>Total</b>	<b>50,073</b>	<b>7,444</b>	<b>2,882</b>

\* Figures show projected potential impact in 2009/10.

### Impact from the 2008-09 Outturn

11.2.3 The downturn in the economy is having an impact on the Directorate's capacity to generate income, principally through car parking charges and planning fees. In addition, private sector development is declining, leading to a fall off in s278 and s106 contributions which will limit the recharging of staff time to capital projects. Services will continue to explore ways to mitigate the impact on the outturn.

## Delivering the Budget / Emerging Pressures

### Employee costs

Service	Net Budget £000	Forecast £000	Outturn Variance £000
Environmental Services	16,712	17,314	602
Safer & Stronger Communities	4,773	4,195	(578)
Planning & Policy	6,550	6,019	(531)
Regeneration	4,677	4,315	(362)
<b>Total</b>	<b>32,712</b>	<b>31,843</b>	<b>(869)</b>

*The above figures currently exclude the budgeted and forecast costs for the Integrated Transport Service (ITS) shared service arrangement and the Performance & Improvement Unit/Business Services, which are in the process of being reviewed.*

- 11.2.4 The current forecast outturn for “as is” pay is £31.8m, a net underspend of £869k. Any further changes to the Places Directorate structures following development and consultation will be reflected in the budget prior to Mid Year Review reporting.

### **Environmental Services**

Environmental Services	Net Budget £000	Forecast £000	Outturn Variance £000
Highways Maintenance	10,055	10,055	0
Household & Recyclate Collection Costs	90	386	296
Landfill & Household Waste Recycling Centres	9,480	11,097	1,617
<b>Total</b>	<b>19,625</b>	<b>21,538</b>	<b>1,913</b>

### Highways Maintenance

- 11.2.5 At the first quarter review spending is in line with the £10m Highways Maintenance budget. Whilst actual expenditure in the first quarter reflects just over 12% of the total budget for the year, it does not yet take into account some significant commitments in relation to energy costs and winter maintenance which are programmed to take effect later in the year.

- 11.2.6 Two potential areas of concern are the level of expenditure incurred on drainage and carriageway defect, which as a consequence of recent weather conditions, are higher than anticipated at this stage in the financial year. The Service will continue to keep these areas under review and report on them at Mid Year.

#### Household and Recyclate waste collection costs

- 11.2.7 At the first quarter review the Waste Collection and Recycling (WCR) function is forecasting a potential budget overspend of £296k (2.9%) against a £10.2m net budget. The WCR budget includes a £90k net growth target for 2009/10 as shown below:

<i>WCR- (savings)/growth targets</i>	<i>Net Budget £000</i>	<i>Forecast £000</i>	<i>Outturn Variance £000</i>
<i>Alternate Weekly Collections</i>	(230)	(153)	77
<i>Roll Out Green Waste - Growth</i>	600	619	19
<i>Route Optimisation</i>	(280)	(80)	200
<b>Total</b>	<b>90</b>	<b>386</b>	<b>296</b>

- 11.2.8 With regard to the alternate weekly collections and the green waste roll-out (net budget of £370k) aimed at harmonising waste collection throughout Cheshire East, it is forecast that the Service will overspend by £96k. Whilst the implementation of both schemes has been delayed until August 2009 (as reported to Cabinet on 18<sup>th</sup> June 2009), the forecast take-up of the green waste roll-out is higher than originally envisaged, incurring additional pay, transport and material processing costs.
- 11.2.9 The remainder of the savings in this area relate to the route optimisation project (£280k), aimed at delivering savings from staff and transport costs. Whilst procurement of the software/consultancy to deliver the review is in progress, the actual review is unlikely to commence until later in the financial year, with the forecast savings not being realised until 2010/11.
- 11.2.10 It is hoped that the outcome of the review will identify savings greater than the £280k originally envisaged; however that will not be known with any certainty until later in the year. The Service is optimistic that it can regain some of this deferred saving in 2009/10 having reorganised recycling rounds in the former Macclesfield area in April. A saving of £80,000 on transport through a review of vehicles in the WCR fleet has been forecast.

#### Greencycle

- 11.2.11 In addition to the forecast overspend of £296k reported above, since approval of the 2009/10 budget in February 2009, the former contract provider for Congleton Borough Council's kerbside recyclate collections (Greencycle) went into administration on 23<sup>rd</sup> March 2009. Due to the



immediate requirement to ensure continuity of service, Congleton agreed to bring the operation in-house. The 38 Greencycle employees are currently in the process of being transferred to Cheshire East Council under TUPE Regulations.

- 11.2.12 Having brought the operation in-house it is forecast that the cost of the service will be £811k which compared to the £426k kerbside recycling budget for 2009/10 in the former Congleton Borough area, gives a projected overspend of £385k (see note under Employee Costs above re absorption of overspend in pay forecast).

#### Landfill & Household Waste Recycling Centres (HWRCs)

- 11.2.13 At the first quarter the Service is forecasting a £1.6m overspend against budget for 2009-10, broken down as follows:

Waste Disposal Contracts	Net Budget £000	Forecast £000	Outturn Variance £000
Landfill	7,047	8,289	1,242
HWRCs	2,433	2,808	375
<b>Total</b>	<b>9,480</b>	<b>11,097</b>	<b>1,617</b>

- 11.2.14 The costs of both these contracts are dependent on the tonnage of waste passing through them. Waste tonnage figures for 2009-10 are only currently available for two months, April and May. These show marked variations on those for 2008/09 and are not a sound basis for estimating a yearly outturn position. However, as an indication the above figures are based on a comparison of April and May data for the two years and a projection of this for the year.

- 11.2.15 Waste disposal budgets incorporated some £2.8m in savings to be achieved; £2m based upon the County Council's estimates for the 2008/09 year in respect of waste levels; £806k additional saving plus "non-allowance" for inflation (on landfill tax and other factors). The forecast outturn shown here reflects both the cost pressures of exceptional inflation and also the potential triggering of a compensation payment, under the guaranteed minimum tonnage (GMT) obligation in the landfill contract.

#### Landfill

- 11.2.16 The cost of the gate fee and landfill tax are both showing above inflation increases in 2009-10; e.g. landfill tax has increased by £8 per tonne (25%) on 2008/09.
- 11.2.17 In recent years there have been large decreases in the residual tonnage going to landfill, due to increases in recycling at the kerbside and HWRCs, decreases in waste arisings resulting from waste minimisation initiatives and latterly the selling off of trade waste businesses by the former District Councils and also the effects of the recession. Consequently it is currently

forecast that there will be a requirement for a GMT compensation payment this year and this has been reflected in the above figures. The current outturn forecast shows an overspend of £1.242m.

### HWRC

- 11.2.18 HWRC costs are based on tonnages passing through the sites. Again as above, fees are showing above inflation increases (from the transport of residual waste to landfill sites, site service fees, a management fee and an annual bonus based on performance). The current outturn forecast shows an overspend of £0.375m.

## **Safer & Stronger Communities**

### Car Parking income

<b>Safer &amp; Stronger Communities</b>	<b>Net Budget</b>	<b>Forecast</b>	<b>Outturn Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Car Park income	(6,394)	(5,769)	625

- 11.2.19 The income budget for Car Parking is £6.4m for pay and display fees and penalty fines, including £0.375m for the introduction of parking charges in Congleton with effect from July 2009. However, achievement of this budget may be influenced by the downturn in the economy and the later than anticipated commencement of Civil Parking Enforcement in Congleton.
- 11.2.20 The current forecast for all Parking Services is a net overspend of £0.625m, arising from a shortfall in income, partly due to the later than anticipated introduction of charging in the Congleton area. It should be noted that both Crewe & Nantwich BC and Macclesfield BC reported a decline in car parking income in 2008/09 totalling £0.410m.

## **Planning & Policy**

<b>Planning &amp; Policy</b>	<b>Net Budget</b>	<b>Forecast</b>	<b>Outturn Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Planning Fee income	(2,813)	(2,013)	800
Land Charge Fees income	(763)	(475)	288
<b>Total</b>	<b>(3,576)</b>	<b>(2,488)</b>	<b>1,088</b>

### Fee income

- 11.2.21 Both Planning Fee and Land Charges income will be affected by the downturn in economic activity. In relation to Planning Applications, despite developers' interest being maintained and a number of recent major applications being accompanied by significant fees, the Division is still anticipating a shortfall in the region of £0.800m against a budget of £2.8m.

Income from Land Charges is also forecast to be under by £0.288m against a budget of £0.763m; this also is due to the economic climate and the new regulations, which came into force on 6<sup>th</sup> April 2009

#### Regeneration

<b>Regeneration</b>	<b>Net Budget £000</b>	<b>Forecast £000</b>	<b>Outturn Variance £000</b>
Integrated Transport Service (shared service)	4,369	4,494	125
<b>Total</b>	<b>5,257</b>	<b>5,382</b>	<b>125</b>

#### Integrated Transport Service shared service

- 11.2.22 At the first quarter review the Integrated Transport Service (ITS) shared service has identified a potential budget overspend of £125k against the Cheshire East £4.4m net budget. The ITS budget includes a £276k savings target for 2009/10, comprising £126k from the final year of the Bus Services Route and Branch review and £150k from the Council's Medium Term Financial Scenario.
- 11.2.23 With regard to the Route and Branch review, bus service efficiencies with a full year effect of £31,800 have been realised (£29,400 in 2009-10). Operation of new contracts from October and other savings identified bring total savings achieved to £94,650; the Service is optimistic of finding the further £31,350 required.
- 11.2.24 The ability to deliver the remaining savings of £150,000 from reductions in local bus services are limited by the need to undertake consultation on any withdrawal of services and the related legal processes. Further work will be required to develop options to achieve these savings.

#### Future Jobs Programme

- 11.2.25 Cabinet is requested to recommend to Council the draw down of £1.3 million of external funding from the Department of Work and Pensions (DWP) to deliver a Future Jobs fund programme in the Cheshire East area. The Future Jobs Fund is a new £1.2 billion Government initiative to help generate jobs for young people who are approaching 12 months unemployment or live in areas of high unemployment. The maximum contribution available is £6,500 per job created and must cover the costs of 6 months employment for a minimum of 25 hours per week at a national minimum wage or more plus any material and supervision costs required to undertake the job. This can be supplemented by funding from other sources.

- 11.2.26 Working with local partners, the Regeneration Service of Cheshire East Council will deliver 200 new jobs over 17 months starting in October 2009. The thrust of these jobs will be to provide young people with a practical work experience supplemented by training and mentoring support to lead to a permanent position. The Council will also work in partnership with Cheshire West & Chester Council and Warrington Council to deliver a sub regional Future Jobs Fund programme.
- 11.2.27 £1.3 million of Future Jobs Funding will be made available to Cheshire East to support 200 jobs for six months (£6,500 per job created). The nature of the Cheshire East bid is unique in that it includes 20 jobs within the engineering industry. Due to the complex nature of these jobs, the employers feel that the placements should be extended to 12 months. As the DWP fund can only cover 6 months of employment, an approach has been made to the Northwest Development Agency for £100,000 of additional funding to top up the Future Jobs Fund allocation. The Recession Task Group has already approved £40,000 from its budget to be allocated to the programme.

### **Action Planning**

- 11.2.28 The Directorate is managing the delivery of its policy proposals (budgeted savings) for 2009/10 and is also maintaining tight control of expenditure to manage its budget effectively and mitigate the impact of the pressures identified.
- 11.2.29 In addition to developing its new structure, the Directorate is progressing a series of initiatives to realise the required savings and identify opportunities for further efficiencies (e.g. through reviewing and reorganising fleet, depot and other operations).
- 11.2.30 The Places Directorate will continue to monitor these significant budget pressures and review potential remedial actions in order to mitigate their effect on the 2009-10 Outturn.

### **Conclusion**

- 11.2.31 At this stage of reporting in the financial year the Places Directorate has identified potential emerging pressures totalling a net £2.9m (5.75%) against an approved net budget of £50m
- 11.2.32 The pressures facing the Directorate are as anticipated at the time the budget was approved in February, particularly in relation to increased costs of Waste Management and a reduction in fees and charges (Planning, Land Charges and Car Parking).

### 11.3 PERFORMANCE & CAPACITY DIRECTORATE

The following table provides the annual projected impact of emerging issues in 2009-10.

#### Emerging pressures £5.0m

Service	Net Budget £000	Budgeted Savings £000	Emerging pressures in 2009-10*
Head of BTHOA **	101	460	0
Assets	8,799	1,065	150
Revs & Bens	991	616	0
Finance (Non R & B)	4,658	1,817	500
Procurement	(276)	604	350
ICT	6,052	3,420	2,340
<b>Total BTHOA</b>	<b>20,325</b>	<b>7,982</b>	<b>3,340</b>
<b>Policy &amp; Performance</b>	<b>7,572</b>	<b>1,188</b>	<b>768</b>
<b>Borough Solicitor</b>	<b>5,429</b>	<b>1,083</b>	<b>242</b>
<b>HR &amp; OD</b>	<b>2,688</b>	<b>954</b>	<b>736</b>
<b>Total P &amp; C</b>	<b>36,014</b>	<b>11,207</b>	<b>5,086</b>

\* Figures show projected potential impact in 2009/10

\*\* Note that the budgeted savings of £250k for telephony are commented on in the ICT service comments.

Note the above net budgets do not reflect recent adjustments between services agreed earlier this month, but this has no material effect on the issues identified below.

- 11.3.1 The approved 2009-10 budget included transitional funding of £5.1m to recognise the fact that the P & C efficiency savings of over £10m could not all be delivered immediately. The total transitional bids received to date (including the 2009-10 element of Invest to Save bids) can be contained within the available funding.

#### **Borough Treasurer Head of Assets - £3.34m**

- 11.3.2 This is mainly due to ICT where although some savings will be achieved from the rationalisation of telephony systems, these will be significantly less than the £0.25m identified. It is also clear that the savings of £0.5m on user driven systems will not be achieved. Harmonisation savings of £0.94m are also not achievable immediately as access to key legacy systems is required this year. Future delivery will depend critically on the ability of the ICT Shared Service to decommission all significant legacy systems during

the current year. There will also be an additional cost of £0.5m for the cost of labour to support these systems with the remaining pressure of £0.15m being the cost of the 2 partnership teams in 2009/10 whilst they strive to become self financing.

- 11.3.3 The emerging pressure in Finance relates to the Shared Service Back Office area where the proposed charges exceed the available budget by £0.5m. Transitional funding will be required to cover this shortfall while alternative solutions are explored.
- 11.3.4 Due to delays in resourcing and the introduction of the necessary technology to analyse price and volume metrics within Cheshire East, it is likely that the full saving in Procurement will not be realised in 2009-10 by approximately £0.35m.
- 11.3.5 Further pressures totalling £0.15m exist in Assets relating to proposed energy savings that will be hard to realise in this financial year due to the necessary planning and implementation of such an initiative.

#### **Policy & Performance - £0.77m**

- 11.3.6 Pressures in this service relate to the required resource levels in the Partnership team to adequately support Local Area Working (additional funding of £0.375m provisionally agreed). In addition, inherited budgets are insufficient to fund the promotional and communications activity necessary to promote and publicise Cheshire East in its first year £0.31m. Salary pressures also exist in the service that will be difficult to contain in 2009-10.

#### **Borough Solicitor - £0.24m**

- 11.3.7 The emerging pressure in this department relates to the staffing levels needed in Solicitor to meet both the corporate objectives and statutory requirements that exist in Cheshire East.

#### **HR & OD - £0.74m**

- 11.3.8 This is due to a combination of the ring fenced shared services budgets in OHU and Back office being exceeded by £0.2m and the current staffing levels in HR being higher than the permanent structure by £0.250m.
- 11.3.9 In addition, the service has submitted additional Invest to Save bids totalling £0.286m to support Transformation and staff redeployment across the authority. It is proposed that for 2009-10, these bids are funded from within the £5.1m transitional funding budget.

#### **Action Planning**

- 11.3.10 Some of the emerging budget pressures identified above necessarily reflect estimated budgets (particularly in Shared Services) due to virements still being finalised, and monitoring arrangements still needing to be properly

established. In particular, additional work is required before the mid year to ensure that areas of compensating savings and other remedial action have been fully explored. Performance and Capacity services will continue to monitor the identified budget pressures and review potential remedial actions in order to mitigate their effect on the 2009/10 Outturn

### **Conclusion**

- 11.3.11 The total emerging pressures within Performance and Capacity in 2009-10 can be met from the transitional funding included in the approved budget for this purpose. However, it is estimated that these pressures will have a potential impact in 2010-11 of £2.6m and this will have to be considered as part of the broader financial scenario for 2010-11 and will increase the overall affordability gap previously assessed at £5.3m to £7.9m.

## **12.0 Treasury Management**

- 12.1 Investment income based upon the current economic climate is estimated to be in line with the original budget of £0.9m.

- The rate of interest to be earned on the Council's cash balances is budgeted to be 0.65%
- The average lend position (the 'cash balance') during the first quarter was £81.6m.

The Council's average interest rate for the first quarter in 2009-10 was 0.88%. This is favourable when compared to the London Inter-bank Bid Rate for 7 days 0.49% and the budgeted outturn of 0.65%. The base rate remained at 0.50% for the quarter.

<b>Comparator</b>	<b>Average Rate Q1</b>
CEBC	0.88%
LIBID 7 Day Rate	0.49%
LIBID 3 Month Rate	1.26%
Base Rate	0.50%

## **13 Collection Rates**

- 13.1 The Council Tax collection rate for the first quarter is 30.89%.

The National Non-Domestic Rates collection rate for the first quarter is 30.37%.

- 13.2 These figures compare to collection rates of other Cheshire unitary authorities (29.08% for Council Tax and 32.04% for Business Rates).

## 14 Capital Programme

- 14.1 In February 2009 Council approved the first Capital Programme for Cheshire East. This consisted of forecast expenditure of £97.244m in 2009-10, £66.663m in 2010-11 and £52,949m in 2011-12. Details by department are shown below in Table 1. Members should note that new starts for 2010-11 and 2011-12 which were included within the Budget Report are not included in the Table below, or any other tables contained within this report.

**Table 1 – Original Capital Expenditure Forecasts**

Department	Forecast Expenditure		
	2009-10	2010-11	2011-12
	£000	£000	£000
<b>People</b>			
New Starts	11,290	5,144	1,931
On-going Schemes	25,972	9,298	395
	37,262	14,442	2,326
<b>Places</b>			
New Starts	16,510	229	-
On-going Schemes	24,235	14,272	9,440
	40,745	14,501	9,440
<b>Performance &amp; Capacity</b>			
New Starts	16,059	3,500	4,440
On-going Schemes	3,178	80	932
	19,237	3,580	5,372
<b>Total</b>			
<b>New Starts</b>	<b>43,859</b>	<b>8,873</b>	<b>6,371</b>
<b>On-going Schemes</b>	<b>53,385</b>	<b>23,650</b>	<b>10,767</b>
	<b>97,244</b>	<b>32,523</b>	<b>17,138</b>

- 14.2 The programme consists of on-going legacy schemes (£53.385m) and new starts (£43.859m). The new starts include a number of schemes which form part of a 'core' programme, including essential maintenance, Local Transport Plan (LTP) schemes within Environment, and Devolved Formula Capital (DFC) allocations for schools. In addition, Members approved new schemes which met the Authorities priorities.
- 14.3 The programme was funded from both direct (grants, external, linked capital receipts), and in-direct (borrowing approvals, revenue contributions, capital reserve, non-applied receipts) income. Details are shown below in Table 2.



**Table 2 – Funding Sources**

Funding Source	Forecast Expenditure		
	2009-10	2010-11	2011-12
	£000	£000	£000
Grants	44,208	22,668	9,686
External Contributions	6,388	100	0
Linked/earmarked Capital Receipts	13,102	4,329	3,944
Supported Borrowing	13,957	1,602	1,924
Non-supported Borrowing	14,230	2,586	1,294
Revenue Contributions	3,258	0	0
Capital Reserve	2,101	1,238	290
<b>Total</b>	<b>97,244</b>	<b>32,523</b>	<b>17,138</b>

- 14.4 2009-10 is a unique year for the Authority, and therefore limited information is available at this stage. Opening balances for on-going legacy schemes have not yet been loaded into the financial system for Cheshire East, and until this is complete the full position will not emerge. This exercise should be completed by the end of August, resulting in a more informative position at the financial update at Mid Year Review (October).
- 14.5 Departments have updated forecasts as requested, and there are a number of proposed changes to the original programme, resulting in increased forecasts of £22.723m for 2009-10, £7.402m for 2010-11 and a reduction of £5.282m in 2011-12.
- 14.6 Details of the variances between the original and revised forecasts for 2009-10 are shown separately in Appendix 1. Information is also included on funding sources.
- 14.7 Revised forecasts for 2009-10 and later years are shown below in Table 3. These changes include the following:
- New schemes approved to start by either Director or Members
  - New schemes awaiting Director/Member approval
  - Slippage and/or reprofiling of previously reported on-going schemes
  - Slippage on a number of legacy schemes, which were due to complete in 2008-09 but for various reasons have slipped into 2009-10. These have not been reported on previously.

**Table 3 – First Quarter Review Revised Expenditure Forecasts**

Department	Revised Forecast Expenditure		
	2009-10	2010-11	2011-12
	£000	£000	£000
<b>People</b>			
New Starts	14,937	7,163	1,971
Ongoing Schemes	29,455	8,575	1,320
	44,392	15,738	3,291
<b>Places</b>			
New Starts	17,726	229	0
Ongoing Schemes	37,685	20,407	3,237
	55,411	20,636	3,237
<b>Performance &amp; Capacity</b>			
New Starts	16,144	3,515	4,440
Ongoing Schemes	4,020	36	888
	20,164	3,551	5,328
<b>Total</b>			
<b>New Starts</b>	<b>48,807</b>	<b>10,907</b>	<b>6,411</b>
<b>Ongoing Schemes</b>	<b>71,160</b>	<b>29,018</b>	<b>5,445</b>
	<b>119,967</b>	<b>39,925</b>	<b>11,856</b>

14.8 The original forecasts for 2009-10 were based on information supplied by Departments at the Three Quarter Year stage last year (November/December). It is acknowledged that these forecasts will be largely out of date, and Departments were asked as part of the First Quarter Review exercise, to review 2009-10 expenditure forecasts in the light of the final outturn position, updating where necessary.

14.9 Members are now asked to approve the revised 2009-10 forecasts which will then become the in-year budget. Future reports to Members will identify any major variances from this revised position. Further details are contained within Appendix 1.

14.10 During the 2009-12 planning process, a number of capital schemes were identified, but due to limited resources were either deferred or put on hold. These schemes are included within Appendix 7 for Members to note.

14.11 Funding

The current programme is fully funded, although more work is necessary to determine the opening balances for capital receipts and reserves. This information will be known in advance of the 2010-11 planning cycle, which will enable Members to make decisions around new starts in 2010-11 which meet the priorities of the new Authority.

- 14.12 Key Issues facing departments (Including requests for Supplementary Capital Estimates (SCE's))

### **People**

14.12.1 Transforming Learning Communities schemes (TLC).

Revised estimates for capital receipts which part fund the TLC programme have now been provided by Property. Due to the current climate, this has meant a reduction in the amount due and a delay to the date the receipt was expected. The impact of which is a cash flow problem in 2009-10 which will need to be addressed. Officers are currently looking at different solutions and once a suitable option is found, will report back to Members.

14.12.2 Vernons PS Amalgamation

The original forecast for 2009-10 was £1.806m. This has now increased although the scheme is still due to complete within the original budget. The scheme re-design revealed issues which were not picked up at the original feasibility stage, resulting in a scheme which would progress a lot quicker than originally anticipated.

14.12.3 Modernisation Grant

This grant is allocated annually to Children & Families. Its purpose is the upgrading and building of new schools and facilities in line with priorities within the local asset management plan. Previously, allocations have been used to implement the TLC programme, and the majority of this year's allocation is also used to fund TLC expenditure, reducing the amount of Prudential Borrowing required. Revenue savings, (from closed/amalgamated schools) over and above what have been used to finance Prudential Borrowing costs (for TLC schemes) have been made and Schools Forum have agreed that £114,000 can be released to fund additional Prudential Borrowing of £1.688m. This would 'free up' an identical amount of Modernisation grant which could then be used to fund a number of improvement schemes within schools. An SCE is included in Appendix 3, fully funded from ringfenced borrowing approvals for £1.150m, as Members have previously approved an SCE for Gorsey Bank, using £538,000 of this funding.

14.12.4 Devolved Formula Capital (DFC) – Drawdown in Advance

Each year, schools have an amount of DFC devolved directly to them. The allocation can be used for smaller schemes, or 'saved' towards funding larger schemes at the school site. Schools have 3 years and 5 months to spend each years allocation. Central Government have announced an early drawdown of 2010-11 DFC, encouraging schools to commit to construction projects during the recession. An SCE is included within Appendix 3 for £2.277m fully funded from grant.

14.12.5 Libraries RFID scheme

This scheme, to install self serve terminals in libraries, is to be removed from the 2009-10 capital programme. The scheme was due to be funded from Prudential Borrowing, with the service finding savings within their revenue

budgets to support the financing costs. However, due to current pressures on the revenue budget, the service are unable to commit to revenue savings of around £160,000 for the next 5 years to pay for the cost of the scheme.

#### 14.12.6 Community Support Centre (CSC) Misters

There is an urgent need for a more robust system of fire safety precautions, especially overnight, in the Council's Community Support Centres (CSC's). There is a high risk to people's lives of not increasing safety precautions in the CSC's increased by the fact that many of the units are for specialist dementia. Cheshire Fire and Rescue Service have confirmed that it is the responsibility of East Cheshire Council to have arrangements in place in each CSC to evacuate service users in the event of a fire and have cited the Regulatory Reform (Fire Safety) Order 2006. Installation of misters in the bedrooms, which would be operated by the presence of fire, would mean the fire could be quickly extinguished thereby increasing the survival chances of the occupant, and reducing the need to evacuate the rest of the building. It is proposed to install misters in 4 CSC's at a total cost of £280,000. A Supplementary Capital Estimate for £0.280m is requested in Appendix 3, fully funded from revenue grant.

#### 14.12.7 Sandbach United Football Complex

This scheme was deferred by Members in February, and is not currently included within the approved programme. Since then, further options regarding the capital receipt have been proposed, and a revised scheme is included within another item on the agenda.

#### 14.12.8 Redsands

The appropriation of the Redsands site from Children's to Adults Services has been noted by the Head of Property and Assets and Cabinet approval is now required to approve the appropriation of the site and the relevant internal transfer of funds, further details in Appendix 6. A proposal to redevelop Redsands into a purpose built accommodation for Adults with Learning Disabilities, in conjunction, with a relevant Registered Social Landlord (RSL) is being developed and will be reported to Cabinet at a future date. Part of the proposal will involve the Council granting the RSL a long term lease on a peppercorn basis, which is necessary for them to be able to unlock and invest the required capital funds, in turn resulting in permanent revenue savings for the Council. No further capital investment is envisaged from the Council.

### **Places**

#### 14.12.9 Crewe & Macclesfield Household Waste Recycling Centres

Works on the Crewe site are almost complete and although the final account has not yet been received there are unlikely to be any financial issues arising. With regards to the Macclesfield site, although the final ground investigation report has only recently been received there could be some emerging issues regarding complex drainage problems. Rectifying these drainage issues could potentially cost a further £500,000 if the only viable solution is the most costly. Further discussions are ongoing with stakeholders and further reports will be

presented to Members before any action is taken which may result in costs exceeding the current approval.

**14.12.10 A537 Macclesfield to Buxton road**

The A537 Macclesfield to Buxton road, known as the Cat and Fiddle has a continuing problem with fatal accidents and serious injuries. Significant resources have already been committed to the road and a further proposal is to install average speed cameras along the full length of the A537 between Macclesfield and Buxton. Additions to this installation include four linked units on the A54 from its junction with the Cat and Fiddle.

A Road Safety Partnership Grant award of £566,900 from the Department for Transport (Dft) has been stipulated for capital use in 2009-10. Council contributions to the scheme from the Local Transport Programme are £135,000 in 2009-10 and £135,000 in 2010/11 as noted within the 2009-10 Capital Programme and Highway Maintenance Revenue budget reported to Cabinet on 19 May 2009. A Supplementary Capital Estimate of 0.567m funded by Dft grant is included in Appendix 3, once approved the grant will be accepted by the Borough Treasurer and Head of Assets.

**14.12.11 Vehicle Replacement Programme**

The vehicle replacement process starts around February each year with the advert in the EU Journal and usually in June/ July the Authority would be placing orders for specialist vehicles/ bodywork, to ensure delivery within the financial year.

Prudential Borrowing has been identified as the source of funding for the vehicle replacement programme, however, a cost-benefit analysis is currently underway to compare the cost of leasing vs. borrowing (purchase), to inform decisions, help ensure best value and minimise the impact on the Revenue Account.

**14.12.12 Appendix 2 contains an update on the joint Cheshire East and Cheshire West and Chester Waste PFI scheme.**

**Performance & Capacity**

**14.12.13 ICT schemes**

The Cheshire East ICT capital programme includes a number of joint projects with Cheshire West & Chester (CW&C) covering areas such as essential replacement and security. CW&C has included some funding in the current year's capital programme which was approved by their Executive on 15 July 2009. This should enable work to continue for the interim on the joint projects. The intention is that the CW&C ICT capital programme will be revisited once the ICT strategy has been further developed. At this stage it is not possible to determine whether there will be any impact on the joint ICT projects within the Cheshire East programme.

#### 14.12.14 County Farms

An established policy exists whereby 25% of receipts generated by the disposal of farm properties can be reinvested into the farms estate for the reorganisation of the service in order to deliver an improved structure for farming opportunities and improved financial and environmental performance. Following the final outturn position, the retained capital receipts were less than expected, which meant that the County Farms reinvestment strategy had to be reduced. As a result, Members are asked to approve a reduction in the original approved budgets for the on-going schemes. With the continuing global recession, capital receipts are being closely monitored and if receipts are likely to be less than originally forecast in 2009-10, the investment strategy will be reduced accordingly, so that planned in year expenditure can and will be managed without prejudicing short term targets. Members will be kept informed through the quarterly reviews.

#### 14.12.15 Development Management System

The Development Control services (now Development Management) of the former district authorities have been working closely together to design and implement an integrated ICT solution to meet the needs of the Cheshire East Planning Service and a business case is currently being prepared. Agreement was reached with Congleton Borough Council prior to vesting day that £200,000 of Capital money would be ring fenced from Planning Delivery Grant to ensure delivery of this project and included all the associated costs of back scanning, data migration, training and purchase of equipment, hardware, software and licenses. A Supplementary Capital Estimate for £0.200m is included within Appendix 3.

#### 14.13 **Conclusion – Capital Programme**

Members have been presented with a revised 2009-10 capital programme, after Departments have updated expenditure forecasts following the final outturn. This includes the impact of slippage from 2008/09, new opportunities for investment and withdrawal of schemes which can no longer be funded due to budgetary constraints and reduced capital receipt projections. Members are asked to approve a revised 2009-10 in-year budget, and material variances from this revised position will be reported back to Members at quarterly reviews.

### **15 Reserves Position**

- 15.1 Cheshire East Council's opening balance for revenue reserves has been updated following closure of the predecessor authority accounts. There is still some scope for amendments, following audit and final agreement on disaggregation of the County Council balance sheet, so figures are still provisional at this stage.
- 15.2 The 2009-10 Budget included the Reserves Strategy, and this report updates the figures within that strategy and highlights a number of issues that will form the basis of a revised strategy to be presented in September 2009.

## General Reserves Balances

- 15.3 In February 2009, the predecessor councils to Cheshire East, provided an estimated closing general fund balance of £15.882m. Table 1 (below) shows a significantly improved closing position, most of which related to an improved outturn for the former Cheshire County Council.
- 15.4 Table 1 also highlights the additional earmarked reserves created by Cheshire East Council when setting the 2009-10 budget.

**Table 1: General Reserves are higher than predicted but are still subject to audit.**

	<b>General Reserves £000</b>
Closing Balance for Predecessor Authorities	25,168
Less Additional Earmarked Reserves (Budget 2009)	(1,096)
<b>Opening Balance for Cheshire East Council</b>	<b>24,072</b>

Source: Cheshire council's financial statements (June 2009)  
Cheshire East Council Budget 2009-10

- 15.5 The council has budgeted for changes to the reserves position, allowing for items such as transitional costs, and for their repayment. Since 1<sup>st</sup> April 2009 the cabinet has determined two additional items that may require funding from reserves:
- a. Recession Group
  - b. Crewe Gateway
- 15.6 Table 2 shows the latest projected position in terms of the movement on general reserves during 2009-10.

**Table 2: Projected Movement on Reserves 2009-10**

Detail of Movements	£000	£000
<b>Opening General Reserves at 1st April 2009</b>		<b>24,072</b>
<b>Projected Use of Reserves</b>		
Transition Costs - Staff Relocation	(3,000)	
Voluntary Redundancy - Actuarial Costs	(1,600)	
Recession Task Group Funding <sup>(Provisional Allocation)</sup>	(331)	
Crewe Gateway <sup>(Provisional Allocation)</sup>	(125)	
<b>Projected Addition to Reserves</b>		
Repayment of Transition Costs (Budget 2009-10)	2,750	
Business Finance Loan Repayments	392	
Contingent Asset (VAT)	4,000	
<b>Net Changes in 2009-10</b>		<b>2,086</b>
<b>Estimated Closing Balance at 31st March 2010</b>		<b>26,158</b>

Source: Cheshire East Finance ~ Financial Scenario July 2009

- 15.7 Work has been undertaken to assess the adequacy of these reserves within the context of the council's predicted outturn. The outcome is detailed below.

#### **General Fund Reserves - Risk Assessment**

- 15.8 The desired level of reserves is substantiated by a detailed risk assessment. This approach allows the council to take account of the circumstances around current structural changes, emerging pressures and economic circumstances.
- 15.9 Risks are categorised and potential values applied to them, the actual exposure to the risk is then considered. Appendix 8 shows the risk areas and the level of reserves the council might reasonably retain to mitigate that risk. This is to some extent a matter of judgement but best practice requires a prudent approach to this assessment. The assessment completed in February 2009 is included for comparison.
- 15.10 The outcome of this analysis has been to place an estimated total value on the range of risks that may arise and which are not covered by insurance. This is equivalent in total to £23.193m. The increase in risk relates to a number of key areas including the following:
- In year emerging budget pressures
  - Possible additional Voluntary Redundancy payments
  - Medium Term Financial Position
  - Pump priming requirements for invest to save projects
  - Swine flu epidemic



- 15.11 Some risks have however been downgraded or removed from the assessment. This reflects changing conditions or more robust mitigating action, for example:
- a. Stabilisation in investments markets and banking
  - b. Greater certainty of opening balances

### **Adequacy of General Reserves**

- 15.12 The Chief Finance Officer has a duty to comment on the adequacy of financial reserves and uses various data sources to inform that comment.
- 15.13 The improved opening balances, and budgeted intention to repay costs incurred from Local Government Reorganisation, appear sufficient to protect the council against the identified risks at this stage. The increase in risks is not unexpected following such a major change programme, but is therefore prudent to retain high levels of reserves until outstanding issues have been resolved.

### **Earmarked Reserves**

- 15.14 Earmarked reserves have the effect of transferring the tax burden across financial years as current taxpayers' funds are being used to support future years' spending. It is therefore necessary to review balances frequently to ensure that they are still appropriate, relevant and adequate for the intended purpose.
- 15.15 Cheshire East Councils earmarked reserves are valued at c.£13m. These will need to be reviewed to assess the extent to which they are required/justified, or indeed can be used to further mitigate cost pressures identified by services. The conclusions from this review will be reported in September, with a further update on the overall Reserves Strategy and risk position. Recommendations will be proposed in September 2009.

## **16 Access to Information**

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

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