The Chartered Institute of
Public Finance & Accountancy

Cheshire East Council

External Assurance Review

August 2024

A Report by:
The Chartered Institute of Public Finance and Accountancy

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1 Executive Summary

1.1 Summary of Findings, Issues, Evidence and Analysis

There is a high risk of the need for a Section 114 notice (S114) at Cheshire East Council (CEC) later this financial year. In addressing the challenge, it is imperative that the council clearly set out the short term actions required in a recovery plan as a priority which should be distinctive from but aligned to any medium or longer term plans.

The worsening financial crisis has been brought about by a growth in unfunded expenditure required for CEC to meet its statutory responsibilities in responding to the growing number and complexity of Adult and Children's Social Care cases and the soaring borrowing and other financing costs needed to sustain a cumulative c£70 million deficit in its Direct Schools Grant as well as a £0.6 billion capital programme.

CEC has put off hard decisions to curb spending over the last couple of years and planned this year for the third time to meet a funding gap (£12 million this year) through reserves. CEC's useable reserves have fallen to c£17 million. If it calls upon the in-principle Exceptional Finance Support (EFS) it was granted in February 2024, it will have a c.£35 million safety margin but this will add to its borrowing costs. If overspends this year are more than 10% over budget and other mitigations have not been found the council may be in S114 territory.

This year many Directorates were faced with ambitious mitigation targets and initiatives to rein in spending but there are early signals that they are not working yet. At the end of the first quarter its monitoring indicated a forecast overspend of £26 million had already developed on a total budget of c£350m..

CEC recognises the precarious position it is in. Under the leadership of the Chief Executive and the interim Finance Section 151 (S151) Officer it has entered crisis management mode and set up a Strategic Finance Board to co-ordinate the mitigation activity across the council. But there is still much that needs to be done to develop a dashboard that brings the monitoring of outcomes of all mitigation in one place, to identify the critical paths through the complex decision pathways necessitated by the council's full Committee system and to implement the current capital programme, income and fees, balance sheet and asset disposal reviews to help support recovery. The last of these reviews will probably be the most material as the council has a considerable portfolio of land. And crucially Adults and Children's Social Care Directorates must bring their spending under control and deliver their mitigations.

CEC senior management must do all of this whilst several senior posts are still without permanent appointments, and the council must implement improvement plans in response to this review, its peer review and the OFSTED inadequate verdict on aspects of its Children's Services. It will however be supported by an assurance panel independently chaired. Members we spoke to also appreciate the need for hard decisions to address the challenge. Our report helps to identify where those hard decisions may lie and the impact the financial crisis may necessarily have, for example, on CEC's land development, farming and carbon-reduction policies.

If the council can maintain a balanced budget this year, it is then faced with a growing funding gap that will have accumulated according to its medium-term financial strategy, to £100 million by 2027/28. It has worked with an external private partner to develop a transformation plan that identifies financial benefits of most optimistically £91 million and more realistically £61 million. But there is a large-scale programme management task to deliver them. And the resources, skills and people needed to deliver the plan will mostly have to be found internally. It will be important for CEC to find the necessary focus to deliver those elements of the transformation project that should result in the most comprehensive impact – developing a target operating model for the council which recognises its likely ongoing financial constraints and developing a workforce productivity plan.

Some of the contributory solutions to medium-term sustainability are ultimately outside CEC's direct control – such as Government's future approach to SEND and DSG policy- But it needs to continue to make sure its Dedicated Schools Grant (DSG) deficit reduction plans are as robust as they can be.

We did not identify any major flaws in the council's underlying financial systems and processes but there are several ways in which they can be strengthened. More management focus needs to be given to addressing the reduced functionality of its enterprise resource planning system and the risks and inefficiency to which its shortcomings are exposing the council. CEC needs to develop its forecasting capacity and skills. The weaknesses of its current approaches have impacted on the realism and profiling of both its capital funding programme and service savings initiatives. The balance of financial service support to different Directorates needs to be considered and in the medium term there needs to be a more structured programme of financial and risk-management training across the council.

Governance issues have been a long-standing issue at CEC. In response to some lapses in appropriate engagement of Members in decisions, it is currently rewriting its scheme of delegation to provide greater clarity and reduce some financial thresholds. It is vital that the Monitoring Officer and S151 Officer work together so that decision-making remains flexible but is guided by clear procedures and understanding of governance requirements.

Our report makes over 40 recommendations. There is a clear need for the in-principle EFS granted in February 2024 and this may be required over a longer period. Most of the recommendations are focused on supporting CEC in tackling its immediate financial challenges with the remainder aimed at more medium- and longer-term improvement

1.2 Key Risks and Recommendations

Key Risk	Risk Rating (see details in Annex 1)	Recommendation (including timeline)
Financial Management / Sustainability		
1.There is no single dashboard to monitor all the mitigation activity across the council	9	1. That a SharePoint spreadsheet is developed as a single dashboard of information on the expected actions and deficit mitigations across the council and the single plan against which progress in delivering expected savings, additional income, asset sales and reduction in borrowing is monitored by Officers and scrutinised by Members. As soon as possible
2.There is insufficient capacity and skills to support the Strategic Finance Board	4	2. That the Strategic Finance Board develops the appropriate scenario analysis and modelling capacity to make appropriate decisions. As soon as possible
3.That the council needs to draw on EFS which will make levels of borrowing even more unsustainable	9	3. The council maximises delivery of mitigations in 2024/25 so use of the capitalisation direction is not required. If it is required, it should as far as possible be funded by capital receipts rather than borrowing. By April 2025
4.The immediate focus on the steps to remain solvent distract from the need to initiate transformational projects	6	4a. That there is close working between the Strategic Finance Management and Transformation Boards, so their respective streams of activity are aligned. Ongoing 4b. That the senior leadership team ensure they retain sufficient focus on and oversight of the initiation of the more medium-term transformational projects despite the fire-fighting that will be required to survive 2024/25. Ongoing
5.That the Medium Term Financial Strategy (MTFS) and other corporate documents do not sufficiently alert users to the key corporate challenges and priorities and are too longwinded.	4	5. Develop a revised, simpler and shorter format for the MTFS report For the 25/26 to 28/29 MTFS

6.The social care directorates do not receive the level of corporate (including financial service support) they need to implement their major improvement programmes	4	6. A review of financial services should identify the future skills and competencies that will be required to sustain transformation, such as expertise in data and scenario analysis and strategic financial management and how they will be developed. During 24/25
7.The finance service resources, skills and experience do not keep up with the changing agenda		7. See recommendation 6.
8. Members and Officers do not have sufficient understanding of local government finance and the current financial pressure to constructively engage	3	8. CEC should develop a continuing programme of financial training to Members and officers. It should conduct a survey or assessment to determine existing knowledge of local government finance and financial management skills and help tailor the training or support offer to meet need. By start of 25/26
9.That effective risk management is compromised by a lack of understanding of its role amongst members, a lack of cross-committee co-ordination and a failure to link Committee decision-making explicitly to risk.	4	9a. Committee papers should draw attention to the risks associated with decisions, including the risks of deferring or not making decisions AsAs soon as possible
		9b. Provide all Committee members with training on risk management By April 2025
10. That fixing the problems with the Enterprise Resource Planning are not receiving sufficient senior management focus and that the resulting inefficiencies and workarounds that impact badly on financial management will continue	6	10. That the health check of the ERP is broadened out to address all the implementation issues that are impacting on the council As soon as possible
11.That the improved functionality that the new ERP offers for financial management is not realised	6	11. The Finance Service builds into its Service Plan the practical steps it will take to ensure officers are able to exploit the unused functionality of the ERP and to provide support and training to users As soon as possible

12.That CEC's plans for increased productivity may rely too much on technology without commensurate attention to reskilling the workforce	**2**	12. CEC makes sure its planning for digitalisation and other IT-enabled transformation pays adequate attention to the HR and reskilling aspects that will also be involved During next 12 months
13.That the Transformation plan does not lead to a culture of continuous improvement.	**3**	13. CEC works with its transformation partner to identify as part of the plan the practical steps that need to be taken so that the council has a culture of continuous improvement. During next 12 months
Capital Programme, Debts, Assets and Investments		
14.The DSG deficit is not kept under control	**9**	14a. The council needs to continue to work closely with the Department for Education so that it is accepted on the SV programme as the only realistic solution to bringing its DSG deficit to sustainable levels over the medium term.[1] Ongoing
		14b. The council should establish a schedule of regular reviews of the DSG deficit recovery plan to ensure the plan remains on track to bring the deficit under control Ongoing
		14c.The DSG Management Board needs to commission evaluations of early delivered measures in the DSG management plan to learn what has been effective and what might need refinement Ongoing
15.Financing costs falling to the General Fund are not curtailed		15a. CEC action any recommendations made by its Treasury management advisors in support of balancing the books this year. As soon as possible
		15b.The council needs to review its capital programme and where overall Value For Money (VFM) is not threatened cut or defer individual projects. As soon as possible
		15c. The council needs to improve its future capital programme management by:

[1] Update: The Safety Valve programme has been withdrawn nationally since this report was drawn up. New Specialist places will be created in mainstream schools (link)

	9	• Strengthening communication between the project implementing departments and finance at regular stages to ensure that all aspects of a project are considered in the financial forecasting process • Strengthening corporate scrutiny of new projects against the council plan and priorities • Implementing a more robust and consistently applied risk assessment framework across the programme that include financial, operational, regulatory and (where relevant) funding risks • Using standardised financial modelling software or agreed techniques to help simulate various scenarios and help anticipate risk By April 2025
		15d. CEC should abandon or defer projects that require match funding and borrowing where overall VFM is not threatened, or savings are not delivered As soon as possible
16. Ambitious carbon reduction targets contribute to financial challenges	**4**	16. CEC should review whether the pace of its carbon reduction ambition is achievable given current financial challenges As soon as possible
17.The council does not make hard decisions to dispose of some of its assets or review the affordability of some of its strategies, policies and non-statutory services	**4**	17a. CEC should review whether its farms strategy remains good value for money and a strategic fit and is in accordance with the direction of the target operating model being developed. It should consider whether a phased and controlled sale or partial sale could not contribute to the budget deficit over the life of the Medium-Term Financial Plan (MTFP). Ongoing
		17b. CEC need to make sure they obtain accurate, up-to-date valuations of potential disposals from qualified professionals and consider market conditions in determining the optimal timing for each disposal.to secure VFM Ongoing .
		17c. CEC should conduct a post-disposal review on disposals in the early part of the MTFP to learn from the process and improve future asset disposal strategies.

		By May 2025
18.The benefits of in-housing ANSA waste and recycling services are not realised	**2**	18a. CEC need to operate robust risk management in the in-housing of ANSA so as to identify and mitigate potential risks, including financial, operational and reputational. As soon as possible
		18b. CEC should develop a benefits realisation plan for the in-housing of ANSA to help identify, direct and monitor the savings and improved services that should result. As soon as possible
19.CEC does not realise its investments where possible to help reduce the MTFS spending gap	**6**	19. CEC needs to review whether its interest in Alderley Park Limited can contribute to the funding gap at some stage over the life of the MTFP. As soon as possible
Governance		
20.The scheme of delegation does not achieve the right balance between the need for flexibility in making swift financial decisions with ensuring Members are appropriately involved in those decisions.	**4**	20. Internal Audit should undertake follow-up work in 9-12 months' time to see if understanding and practice has improved and whether there is any impact on the speed of decision-making. Late 2025
21.Officers do not understand the implications of a revised scheme of delegation	**4**	21a. The council needs to develop a plan to engage officers and communicate the revised delegation arrangements through multiple channels. There needs to be mandatory training sessions especially for those currently affected by the delegation and offer ongoing support and refresher training to ensure that employees stay informed and compliant. December 2025
		21b. The council needs to ensure there are sufficient resource within the Monitoring and Governance Directorate to provide ad-hoc advice on issues of delegation and Officer Delegated Reports to appropriate deadlines.

		Ongoing
22.The Committee system slows decision making down	6	22a. The council review what quick steps can be taken to prioritise urgent and strategic financial issues, identifying the critical path and ensuring they move through the committee system more quickly. This can involve fast-tracking important decisions or holding additional meetings when necessary. As soon as possible
		22b. The council should develop a decision-making matrix outlining the types of decisions that will require input from one or both committees (and where relevant the Service Sub-Committee) and provide integrated reports that address both policy and financial implications of proposed decisions. As soon as possible
23.The scrutiny function within each Committee is inadequately exercised	3	23. CEC should consider what further training, advice and support can be provided to Committee "scrutiny champions" May 2025
24.The Code of Corporate Governance becomes outdated	2	24. The council needs to review its Code of Corporate Governance to ensure it reflects the many changes in structure, process and governance that should have been implemented by then. And to provide renewed assurance that the council is operating in line with the Nolan principles. Late 2025
25.Recruitment delays impede improvement	3	25. CEC needs to improve recruitment procedures so they do not impede development of the Children's Services improvement plan. November 2025
26.Silo working continues to impede improvement	3	26. CEC should review how cross-Directorate and cross-Service working can be more encouraged and incentivised. May 2025
27.The commissioning and provision of legal advice is not VFM	4	27. CEC needs to make sure it has clear protocols and procedures governing all requests for legal advice and where an officer in unsatisfied with the initial legal advice there should be a formal procedure for reviewing the advice internally. December 2025
Service Delivery		
28.Higher than comparable neighbour per capita spend on cultural	4	28. CEC should investigate the validity of the indicator and investigate the implications for VFM.

and related activities is poor VFM		April 2025
29.Corporate performance reporting is not best practice	**2**	29. Report to Corporate Policy Committee could be improved by providing more consistent trend data across the range of activity in support of CEC priorities and including benchmark data where appropriate. May 2025
30.Planning Department and others do not improve management of Section 106S106 (S106) monies or bring down backlog of planning applications	**4**	30a. The council needs to continue to keep the pressure up on the planning department to improve its performance in addressing the planning application backlog and the need for better custody of S106 monies, including through scrutiny by the relevant Committees. May 2025
		30b. CEC needs to review whether it can apply any sS106 deferred income to the Genera Fund this year and contribute to the funding gap As soon as possible

2 Introduction

2.1 Background

Cheshire East Council (CEC) applied for Exceptional Financial Support (EFS) in January 2024 to handle Adult Social Care and Children's Social Care pressures, costs attached to Special Educational Needs and Disability (SEND), and investment made in their trainline systems which has had to be moved from capital to revenue accounts. The council received an in-principle capitalisation direction for £11.6 million for 2023/24 and £6 million for 2024/25

As per the conditions attached to the council's in-principle capitalisation direction the council was required to undergo an in-depth CIPFA finance assurance review following a rapid finance assessment in January2024. The council was also required to produce an improvement and transformation plan within 6 months of receiving the in-principal capitalisation direction.

2.2 Requirement

The then Department for Levelling Up, Housing and Communities (DLUHC) (now the Ministry of Housing, Communities and Local Government, (MHCLG)) asked CIPFA to undertake the external assurance review on which the capitalisation is conditional.

To provide this assessment, we were asked to look at five key themes:

- *financial management and sustainability*: An assessment of the council's financial management and management of risk to reach a view on the council's overall financial resilience and sustainability.

- *capital Programme, debt, investments and assets*: An assessment of the council's capital programme / overall debt position including short- and long-term borrowing, and approach to investment / asset management to reach a view on the suitability, Value for Money (VfM) and risk exposure of the council in this space, and how this may impact on the overall financial resilience / sustainability of the council

- *governance*: An assessment of the council's approach to overall governance / management processes, leadership, operational culture, capacity and capability to reach a view on whether the council is operating in line with the Nolan Principles and in a way to secure continuous improvement.

- *service delivery*: An assessment of the effectiveness of council service delivery reflecting the importance of delivering outcome orientated, citizen focused services to reach a view on the council's ability to deliver services that are economic, efficient and effective, striking the right balance between cost and quality of service.

- *improvement plan and roadmap*: In consideration of the findings of the review areas, targeted, tangible and timely recommendations to assist the council in designing and implementing an improvement plan to address the identified risks and issues.

2.3 Methodology

Our approach comprised the following elements:

Desktop analysis

We considered the outcome of our rapid finance assessment in January 2024. We made document requests to the council. The team has analysed over 100 documents, reports, spreadsheets etc., many provided during the review. We also examined relevant comparator material.

We would like to record our thanks to officers for their ready compliance with our request for reports and data.

Specialised inputs

Some comparative data analyses were conducted on issues such as revenue spend and indebtedness using CIPFA's Financial Resilience Index and the Office for Local Government. Where relevant they are included in the report.

Interviews

The bulk of the fieldwork comprised interviews. These provided the invaluable 'triangulation' of our analysis. Council officers, members, auditors, and other experts were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame for the review. It is not a comprehensive audit of the council's finances or its governance arrangements. Consequently, the conclusions do not constitute an opinion on the status of the council's financial accounts. Our review of the council's Minimum Revenue Provision (MRP) considers the reasonableness of the council's MRP policy and does not constitute an audit of the full application of the policy. Similarly, our review of the council's productivity does not constitute an audit of the council's productivity plan but represents an overview of the arrangements in place to consider productivity and take account of any publicly available information on historic or relevant performance.

CIPFA's review team consisted of four experienced consultants with relevant backgrounds in all areas of the review's scope. CIPFA would like to take this opportunity to thank the council for being so amenable and open to meeting with the review team and for the considerable effort that has been expended in collating and sharing key documents with CIPFA. We also thank everyone involved for the openness, tact, and honesty in what is a difficult and challenging issue for the council.

3 Areas Reviewed

3.1 Review Area 1 - FINANCIAL MANAGEMENT / SUSTAINABILITY

An assessment of the council's financial management and management of risk to reach a view on the council's overall financial resilience and sustainability.

The underlying drivers of any financial fragility and risk and the council's ability to successfully manage those drivers so that issues do not materialise. This should include an assessment of the council's approach to managing increased demand in emergency and temporary accommodation and homelessness, which the council describe as the key drivers of its EFS request.

Key findings and analysis

The continuing key drivers of the financial fragility at Cheshire East Council are two-fold:

a) The financing costs falling on the General Fund of CEC's Dedicated Schools Grant (DSG) Budget Deficit as well as the council's capital programme
b) The unbudgeted costs arising from the number and complexity of its Children's and Adults Social Care Services caseload.

a) Borrowing costs

The growth in local council deficits on schools' accounts has of course been a national trend, but the deficit in Cheshire East is now one of the largest in the country and the growth has particularly grown since the pandemic.

The DSG overspend for 2023/24 was £31.7 million compared to the DSG management plan forecast overspend of £42.7 million. However, the total cumulative DSG deficit is £78.652 million at the end of 2023/24. The unmitigated forecast position for 2030/31 shows total expenditure of £340.4 million against an expected grant of £68.6 million, resulting in an in-year deficit of £271.8 million and a total deficit reserve position of £1.2 billion. The mitigated forecast position for 2030/31 shows total expenditure of £70.2 million against an expected grant and school block transfer of £70.7 million, resulting in an in-year surplus of £0.6 million and a total deficit position of £284.8 million.

The interest costs falling on the General Fund from funding the deficit will be at least £10 million across 2023/24 and 2024/25. And these costs are forecast to rise during the MTFP period as the DSG deficit grows.

CEC is very aware of the need to address the deficit. It has engaged with DfE on the Delivering Better Value (DBV) scheme which provided £1 million of admin support grant to help analyse the causes of the growth in SEND expenditure and identify mitigations.

The removal of the override which allows local authorities to carry DSG deficits separately from their main budgets after March 2026 would make the financial position of CEC unsustainable and the scale of the deficit already presents a huge cashflow issue.

Linked to High Needs growth is the rise in expenditure on transport for eligible children with growth of £4 million being allocated to the service in 2023/24.

The other source of the borrowing costs is CEC's capital programme. Despite recent retrenchments, the programme involves expenditure of £0.6 billion with almost 30% of this being funded by borrowing (£162 million).

The combined effect of these pressures is to bring CEC's borrowing costs to £31.6 million in 2024/25, rising to almost £38 million by 2027/28. In 2024/25 the borrowing costs are consuming more than 8% of CEC's 2024/25 net revenue budget of £372.7 million

The steps the council can take to reduce the DSG deficit and reduce borrowing are limited. However, it can take steps to reduce its capital programme and sell assets to reduce that aspect of its financing costs. The steps being taken in this regard are covered in the review area 2 section of this report.

b) Social care costs

CEC like other authorities has been faced with growing social care demand as well as an inflationary rise in the costs of providing that care, in part because of the increasing complexity of care needs.

The Adult Social Care (ASC) 2023/24 budget was overspent by almost £12 million even after applying one off additional resources and use of earmarked reserves. The Directorate stated that the cause of this overspend included planned mitigations not being able to be delivered, unsuccessful negotiations with providers in respect of price, staffing levels only being able to be partially reduced to maintain a safe service, and reductions planned for 2024/25 not being able to be brought forward into 2023/24 as both demand and complexity of service users and levels of hospital discharge have all proved challenging. Further work is underway to understand the extent to which these late changes worsen the position regarding 2024/25, with the very early analysis to date indicating most of the adverse position is already within managers current plans to address. This includes the focus on reducing the financial pressure on staffing and reducing costs in the two main areas of care, namely working age adults with complex needs and the older people's bed-based services. However, 2024/25 will continue to be extremely challenging as the levels of demand and complexity as well as prices continue to put the adult social care budget under continued pressure.

The 2024/25 ASC budget provides for £9 million of growth. The forecast spend after the Q1 2024/25 report at the end of July was £159 million against the revised budget of £138 million (£21 million more).

The children's 2023/24 budget was c£8 million overspent. The key pressure areas for the children's social care directorate included:

- Children's social care agency placement costs increasing by more than inflation.
- The increased use and cost of agency staff in children's social care to cover vacant posts.
- Higher legal costs within children's social care with longer processes and more challenge.
- Home to school transport costs – where a mix of increasing numbers of pupils with an education, health and care plan (EHCP), driver shortages and increasing fuel costs have seen overall costs rise.
- Educational Psychologists – where there is the need for agency staff to cover posts and challenges in recruiting and retaining staff.

The council's High Needs forecasts were presented and analysed by CIPFA / DfE / Newton as part of the council's engagement with the DBV and Safety Valve programmes. Models were based on actual costs, adjusted for reductions linked to planned transformation of the services and moderated growth forecasts. The forecasts were also scrutinised by the independent DfE advisors who supported the SV submission.

The 2024/25 budget allowed for growth of £14.3 million. The forecast spend after the Q1 2024/25 report at the end of July was £99 million against the revised budget of £92 million.

The continuing pressures as indicated in the projected overspends against both the Children's and ASC revised 2024/25 budgets demonstrate that the mitigation work conducted so far is not sufficient to control spending and that much still needs to be done to realise previous and new mitigations and savings plans. We review the steps the council is taking to manage these services and curb expenditure in Review Area 4 of this report.

An assessment of steps the council is undertaking to ensure it remains within its spending envelope, including deliverability and appropriateness of current savings / transformation plans, income generating activity, etc.

Crisis leadership and governance

In 2023/24 the in-year savings were monitored fortnightly to the council's Corporate Leadership team including the nature of the mitigations. RAG ratings were allocated and updated to flag the areas of potential risk and pressures on the revenue budget. In October 2023 a new board was set up - the Cheshire East Budget Emergency Response Team (CEBERT) to review progress on the in-year position weekly.

Under the leadership of the recently appointed CEO and S151 officer the council has moved into even more of a "crisis management mode" that was urged on it by its recent Local Government Association (LGA) peer review challenge report. It has established a small strategic finance board under the leadership of the S151 officer to provide more command and control of the key recovery activity (See Figure 1 below)

Figure 1 Reporting into the Strategic Finance Board

A summary of the key workstreams are shown in Figure 2 below

Figure 2 The key activities being reported upon

Procurement Board	Strategic Asset Group	Workforce Oversight Group	Finance Management Group
• Expenditure control panel report in (all items over £5k) • Review of all contracts – RAG rating and view to reducing spend • Compliance monitoring	• Development of strategic asset review • Identification of surplus assets • Link with Capital Group	• Review of all vacancies. • No vacancy to be recruited to without going through her • Recruitment watch with proposals to be brought to SFMB • Identify "surplus" vacancies	• Review of MTFS • Budget management including savings delivery • Options for EFS • Funding review • Early review of savings

There are also task and finish groups covering a capital programme review, a balance sheet review and an income and debt management review (examined in more detail in Review Area 2).

Whilst we acknowledge the need for nimbleness and the desire for the governance of the crisis to be as "process-lite" as possible, we believe the board needs better reporting processes to identify and monitor all the key mitigation activity across the council as a whole so it is available as a single dashboard for all who need to make decisions or scrutinise them. It will also need the capacity to model various financial outcome scenarios as mitigations work or do not work over the coming months.

The Transformation Plan

Inner Circle were appointed as the council's transformation partner in April this year. Over the next three months a significant amount of work has been undertaken to draw up a transformation plan, and more than 100 opportunities have been identified, with potential savings identified in the range of £59 – £91 million over the next four financial years. These figures do not include a range of digital projects that have an estimated £14 million benefits, and some of the other opportunities identified through the work to date which require further development through a 'rapid' business case development process. The portfolio of transformation in the plan encompasses six programmes focusing on workforce, social care, Place, early intervention and prevention, digital and special projects.

We note that the drawing-up of the plan has been primarily motivated by the current financial crisis at the council. Some of the plan's portfolio of activity represents an aggregation of individual savings, efficiency and mitigation initiatives, some of which are already in existence, and which have been costed, and others which are more speculative and for which the business cases are less robust. Here the value in the plan is in setting them out in a programme of activity and identifying the need for a Project Management Office (PMO) as well as the leadership and engagement that will be required if staff are to be carried along. A key risk to its delivery is the current financial constraints which means the PMO capacity required to run the activity will need largely to be resourced and staffed internally.

To our mind the most significant projects in the plan for medium term financial sustainability are those that are cross-cutting and are transformational across the council. The projects to develop a target operating model with a clear vision of how the council will operate in the medium to long-term within a reduced overall financial envelope is .is a key priority and another is the review of workforce productivity one.

It will be important for the Strategic Finance and Transformation Boards to keep a focus on the need for this more medium- and long-term financial sustainability reform whilst attending to the more immediate contribution the plan can make to balancing the books this year and next.

The current year spending envelope

Expenditure on services exceeded budget by £6 million in 2022/23, despite an overall increase of £16.6 million in net budget. In 2023/24 the increase in net budget was £25.4 million. CEC's net revenue overspend for 2023/24 was £8.5 million against a revised budget of £356.2 million. However, the structural deficit developing was indicated by the fact that the services were £11.9 million over budget. Net expenditure in 2024/25 is expected to increase by a further £34.3 million, however income from increased funding is only forecast to increase by £22.6 million, creating a budget deficit of £11.7 million. The MTFS plans for this deficit to be funded by reserves.

The MTFS forecast a closing General Fund Balance of £1.1 million at the end of 2023/24. In fact, the outturn was better with the closing balance at £5.6 million. This still represented a major depletion against the previous year balance (£14.1 million in 2022/23)

CEC also forecasts that it will have £11.4 million earmarked reserves which it could defray against overspent budgets.

What this means is that for 2024/25 CEC have total useable reserves of c£17 million (£5.6 million general fund balance and £11.4 million of earmarked reserves) to fund any further overspending.

If it was to use the capitalisation direction it would have a total of £35.6 million to fund any further overspending against budgets. This is c10% of the net budget.

The MTFS has plans to replenish reserves by £5 million each year from 2025/26 but the funding to support this goal has not yet been identified.

The council is relying on each of the services to remain within its budgets by sticking to its savings plans and with no further deficit development over and above that that can be supported by its current levels of reserve.

The Quarter 1 monitoring report shows that at end of July this year the year-end forecast was that service budgets would be £26 million overspent with ASC accounting for £20 million of that forecast overspend. If budgets show further growth of c£10 million in this overspend forecast and reductions in overall budget spending cannot be achieved the council is in potential S114 territory.

This indicates the scale of service mitigation and savings initiatives that must be enforced by the Strategic Finance Board to prevent any further rise and to claw back existing overspend during the remainder of the year. The current scale of spending would not be covered by reserves and there is a risk that even use of the capitalisation direction facility would be insufficient to avoid a S114 notice.

The MTFS identifies a £100 million funding gap

The council revised its MTFS in June this year. Figure 3 shows that if the council can balance its books this year there will still be a funding gap of £41.9 million rising cumulatively to £100 million by the end of 2028.

Figure 3 Revised MTFS 2025/26 to 2027/28

Table 4 Scenario A – known items	Estimated Position 2025/26 £m	Estimated Position 2026/27 £m	Estimated Position 2027/28 £m
Funding Position - February 2024 (as per Appendix A1) Cumulative position	**41.9**	**63.0**	**81.5**
Capital Financing budget – incremental impact for future years over estimated as at Feb 24. Positive impact over medium term and full review of capital programme to take place	(7.8)	(21.6)	(36.4)
Second homes - additional 100% council tax from April 2025	(2.5)	(2.0)	(2.0)
Pay pressure on the 2024/25 from the £1,290/2.5% pay offer (this will need to be funded in 2024/25 and then built into future years base)	+1.9	+1.9	+1.9
Contingency budget	+3.4	+10.0	+10.0
Risk of unachievable budget savings or growth demands exceeding estimates – early estimate	-	+15.0	+30.0
Replenish General Reserves up to c.£20m (£5m p.a.)	+5.0	+10.0	+15.0
Revised Funding Position - June 2024 (Cumulative position)	**41.9**	**76.3**	**100.0**

Based upon the work done to date, the initiatives that are included within the scope of the transformation programme have indicative financial benefits of approximately £59 million in a worst-case scenario and £91 million in a best case. This would leave against the MTFS a remaining £10 million funding gap at best and a £40 million gap at worst.

The transformation plan is a major step forward in taking CEC on the journey towards medium term financial sustainability but is challenging and resource intensive. The transformation plan acknowledges the need to identify and deliver future financial benefits and savings initiatives. This is why it is so important for transformation not to be seen as being delivered as the outcome of a single plan but also rather as a process of continuous improvement. Local authorities that adopt continuous improvement as a core principle are generally more resilient in the face of challenges. They develop the capacity to adapt quickly to new situations, which is essential for maintaining service delivery in an unpredictable environment. Transformation as a continuous process encourages greater staff engagement and ownership of change initiatives. Employees are more likely to buy into changes that they see as part of an ongoing process rather than a one-time event imposed from the top down. This needs to be one of the goals for development by the council as part of its target operating model.

The capacity and capability of the council to deliver an effective finance function to the council commensurate with the complexity of its circumstances, this should include the ability to undertake any transformation activity as required and consider whether officers / members are provided with the right information and training to take necessary financial decisions.

The Finance Service is responsible for strategic planning, monitoring, and reporting of the council's financial arrangements; and for providing financial advice on the organisation's change and development projects. Financial support is provided to all tiers of management, all Members, and across the whole Cheshire East Group of organisations. It is also provided to maintained schools and academies where commissioned from the Team; and financial advice and support is delivered to various partnership arrangements with other organisations, where the council is Accountable Body (e.g. Cheshire & Warrington Local Enterprise Partnership), a key stakeholder (e.g. with the Cheshire Clinical Commissiong Group (CCG)) or shareholder (e.g. Alderley Park Ltd).

The Finance Service completed a restructure of its strategic and operational management levels during 2022/23. Following several promotions in the Team due to the restructure, and a few leavers (due to individuals finding roles in other organisations or retiring) several vacancies existed at the start of the financial year. Since then, the service has been able to recruit to several posts and is almost fully staffed. The service confirmed they have a very effective 'grow your own' strategy, providing apprenticeship opportunities and supporting several individuals on Accounting Technician and Professional Accountancy courses. The Service recognises that it needs to continue to manage its ‘pipeline of talent’ and ensure the ‘flow’ of individuals having opportunities to train and develop is nurtured and maintained at all levels. The Service has an up-to-date service plan.

We were impressed with the professionalism of the Financial Services staff that we met. Understanding of the financial challenges the council faces was acute. Reports presented externally and internally to management boards were always comprehensive and well drafted. However, reports often failed to draw out as clearly as they could do the implications of some of the financial data they contained. Whilst accepting the Committee system makes prioritisation more difficult than it might be in a Cabinet-stye setting, we still felt there was scope in corporate documents such as the MTFS to provide a clearer and more concise cross-service presentation of the key financial challenges and priorities.

Traditionally the service manages support for change within existing resources, by utilising the skills and experience of its existing staff. If a particular programme or project requires a level or type of professional finance input, that is either beyond the Service’s experience or capacity, additional budget is usually required to secure additional resources externally – this may be to meet the requirement directly, or to back-fill existing staff who may be seconded to the project.

The Finance Service should conduct a quick review into whether its resources, structure and skills are appropriate to meet the changing agenda of the organisation. For example, the transformation PMO and work stream will probably require a dedicated financial support resource. Currently the Head of Finance (Deputy Chief Finance Officer) oversees 5 finance managers covering strategic finance and accounting, service development and accounting, Adults and Children’s services, place and corporate services and a Business Support Manager. There are a total of 61.3 Full-time Equivalent (FTE) in the service. We note that the span of control of the Finance Business Partner (FBP) for Adults Social Care and Children’s is 21 FTE compared to the 12 FTE for Place. Given the scale of financial support both Children’s Services and Adults Social care will need to move to rise to their change agendas we were surprised that they did not each have their own FBP.

The review should identify future skills and competencies that will be required to sustain transformation, such as expertise in data and scenario analysis and strategic financial management.

CEC has had a programme of ad-hoc formal financial training and informal support for many years. In July 2024 the interim S151 officer provided Members with a briefing that helped to explain local government as well as the cause of the financial challenges and the solutions.

In the medium-term CEC should consider how it might develop a continuing programme of financial training to Members and officers. It should conduct a survey or assessment to determine existing knowledge of local government finance and financial management skills and help tailor the training or support offer to meet need.

Financial management and governance processes including the effectiveness of the audit and scrutiny committee(s), as well as compliance with Local Government accounting codes and international finance reporting standards

We found no specific evidence of non-compliance with local government accounting codes and international finance reporting standards. The council have reviewed themselves against the financial management code which does highlight some required improvements which have also been picked up by External audit and referred to later on in the report.

In March last year CIPFA were asked to review the operation of the Audit and Governance Committee. We made several recommendations with a view to moving the focus of the Committee to engage in governance matters early looking for ideas and solutions and acting as a critical friend. We were pleased to find that the Chair of the Committee and its supporting officers had welcomed and implemented the changes recommended including updating the Committee's terms of reference and reducing the length of the agenda.

CEC last reviewed its performance against the CIPFA Financial Management Code in March of this year. Two informal sessions were held with the Finance Sub-Committee to examine the review outcome. On the whole CEC assessed itself either green or amber against the different principles of the code. The self-assessment was RAG rated red in the area of the adequacy of the monitoring of elements of its balance sheet that pose a significant risk to its financial sustainability. We have already commented on these aspects of CEC's performance in Review Areas 1 and 2 of this report. A further report with the actions and next steps to be taken will be considered by the Committee in September this year.

A key aspect of sound financial management is the availability of an enterprise resource planning system that has comprehensive functionality, and which offers robust and flexible financial reporting. This is not yet the experience at Cheshire East. The council went live with its new corporate business system Unit4 Enterprise Resource Planning (ERP) in February 2021 (for accounting and financial management) and November 2021 (for HR and payroll functions). We found general frustration with the current implementation of the system and the workarounds that service managers needed to use. One Executive Director told me that there was a loss of trust in the data reporting the system provided which necessitated use of separate spreadsheets. Another Director told us that he could only see HR data on his four direct report officers but not the 550 staff who sit beneath him which made verifying financial information against establishments difficult. He relied on a manual report from HR showing who was in post. Another director told us that the lack of integration with the contract management system meant it was difficult to get reports for example on the contract spend of a particular supplier. The ERP is delivered jointly with Cheshire West with the latter taking the lead which means that CEC cannot implement improvements without the support of its partner.

Another staff frustration has been the lack of availability of the Unit 4 forecasting module outside some of the corporate services directorates.

The council has identified several risks from the ERP as currently operating. These include:

- Overpayments have risen by 1000% since the previous IT system
- Risk of breaches of pensions regulations in respect of providing annual benefit statements
- Recording of apprenticeship levy anomalies

The council has commissioned a health check of the system but focusing on HR and payroll. It is aware of the costs of support that will be required to fix issues and is therefore prioritising these areas.

In our view the need to fix the issues with the ERP is not receiving adequate senior management attention or the resources needed to be brought to bear, given the deleterious impact on financial forecasting, management and control.

The Finance team accept there are significant opportunities for the whole team to build even greater confidence in the system; to develop use of all the flexibility and functionality that the system offers, and to realise the business benefits in accounting and financial reporting – including training and coaching internal customers to self-serve and engage in monitoring and forecasting for their Services. This needs to be built into the service plan for each Service area.

The council's approach to financial risk management including identification, management and treatment of risk.

Two Committees have oversight of the council's risk management arrangement. The Audit and Governance Committee last reviewed CEC's risk management framework covering its risk policies, appetite, reporting and monitoring and responsibility arrangements in 2020. However, the Corporate Policy Committee also has a co-ordinating role across all committees on risk management including reviewing the strategic risk register on a regular basis.

We found the risk assessment on the register to be sound with some of the highest risks being identified as the DSG deficit and failure to achieve the MTFS and the increasing demand and complexity in Children's and Adults Social Care Services.

We found the reports going to the Corporate Policy Committee set out well the movements in risk and the key initiatives that were in place or to be put in place to mitigate the risks.

Whilst the council does have a formal system of risk management that accords with many aspects of best practice, it appeared to us separate from actual decision-making being made within the council. Partly this is because many of the risk mitigations are in the hands of Officers serving the Service Committees. Partly this was because in the papers we saw going to individual Committees, there was little indication or guidance of the risks in the decisions that were being asked for or the risks in deferring or not taking decisions. We thought there was scope to strengthen cross-committee coordination in this regard and improve training to committee members on risk management principles and practices. We suggest that risk assessments are included as part of the documentation for all key decisions being considered by committees. This should help to ensure that risk management is a central consideration in all committee decision-making processes.

An assessment of the council's efforts to maximise productivity and minimise waste.

CEC approved its productivity plan at its July 2024 meeting. The plan draws attention to the fact that the focus of the council is on the immediate need to stay solvent. But it does identify its expectations for the council's transformation plan to lead to greater efficiency and productivity.

A key feature of both plans is the emphasis on digital innovation to redesign the council and the services it provides. The council has been working with external consultants Triple Value Impact (TVI) to develop a 'digital blueprint'. The blueprint focuses on three core areas which will underpin their wider transformation plan and achieve a significant impact:

1. Outcomes: Establishing and pursuing ambitious outcomes.

2. Experiences: Transforming experiences to exceed expectations for both customers and employees

3. Efficiency: Ensuring best use of our resources to add value and generate a positive financial return, which may include creating efficiencies or additional income.

The productivity plan anticipates that business process transformation will change how many council services function, aiming to increase efficiency and reduce cost, by using information and technology to help staff perform tasks, gather data, and deliver smarter business decisions.

While technology is a key enabler of business process transformation, relying too heavily on it without considering the human aspects can in our experience lead to failure. In our view technology should support, not dictate, transformation. One of the aspects of the plans that perhaps needs more development is workforce skills and capacity. Upskilling and reskilling programmes will be vital in responding to changing service demand and the technological advancements being planned.

A view on whether the council could and should take further action to minimise the need to use / seek a capitalisation direction

CEC received an in-principle capitalisation direction from the government as part of an exceptional financial support package earlier this year. The terms of this direction allow the council to spread up to £17.6 million of its financial pressures over future years by capitalising them, rather than having to cover these costs in year to the General Fund.

In part the council's request for the direction was in response to the continuing financial uncertainty over the implications of the cancellation of HS2 north of Brimingham and spending already incurred by the council in preparation for HS2 phase 2. The council has incurred £11.2 million of costs on this project. £2.6 million was revenue, funded from the council's net budget and £8.6 million is capital which was to be spread over the life of the project. The intention was that the scheme had a financial net nil impact on the council with benefits coming from increased business rates and other income sources. All costs now appear to be abortive revenue costs, which would reduce reserves in 2023/24. Without compensation for these costs there was a potential impact of £8.6 million.

The council decided not to use the direction facility to cover these costs in 2023/24. It may be forced to use the direction to balance its General Fund spending in 2024/25. But the fact that the council has the direction card in its 'back pocket' should not contribute to any diminution in the effort to bring forward the savings and other initiatives it is planning to help balance the books for this year without future further borrowing.

Whilst the in-principle capitalisation direction is the only additional financial support currently on offer from central government to CEC, it is an expensive offer which, if ultimately is required to be used, risks undermining its efforts to bring overall borrowing and financing costs under control.

Risks

1 There is no single dashboard to bring together and monitor all the mitigation activity across the council

2 There is insufficient capacity and appropriate skills to support the Strategic Finance Board

3 That drawing on the capitalisation direction may make levels of borrowing even more unsustainable

4 The immediate focus on the steps to remain solvent distract management attention from the more transformational projects that also need to be initiated as soon as possible

5 That the MTFS and other corporate documents do not sufficiently alert users to the key corporate challenges and priorities and are too longwinded.

6 The social care directorates do not receive the level of corporate (including financial service support) they need to implement their major improvement programmes

7 The finance service resources, skills and experience do not keep up with the changing agenda

8 Members and Officers do not have sufficient understanding of local government finance and the current financial pressure to scrutinise and constructively tackle them

9 That fixing the problems with the ERP are not receiving sufficient senior management focus and that the resulting inefficiencies and workarounds that impact badly on financial management will continue

10 That the improved functionality that the new ERP offers for financial management is not realised

11 That effective risk management is compromised by a lack of understanding of its role amongst members, a lack of cross-committee co-ordination and a failure to link Committee decision-making explicitly to risk.

12 That CEC's plans for increased productivity may rely too much on technology without commensurate attention to reskilling the workforce

13 That the Transformation plan does not lead to a culture of continuous improvement.

Recommendations

1. That a SharePoint spreadsheet is developed as a single dashboard of information on the expected actions and deficit mitigations across the council and the single plan against which progress in delivering expected savings, additional income, asset sales and reduction in borrowing is monitored by Officers and scrutinised by Members.

2. That the Strategic Finance Board develops the appropriate scenario analysis and modelling capacity to make appropriate decisions.

3. The council maximises delivery of mitigations in 2024/25 so use of the capitalisation direction is not required. If it is required, it should as far as possible be funded by capital receipts rather than borrowing.

4a. That there is close working between the Strategic Finance Management and Transformation Boards, so their respective streams of activity are aligned.

4b. That the senior leadership team ensure they retain sufficient focus on and oversight of the initiation of the more medium-term transformational projects despite the fire-fighting that will be required to survive 2024/25.

5. Develop a revised, simpler and shorter format for the MTFS report

6. A review of financial services should identify the future skills and competencies that will be required to sustain transformation, such as expertise in data and scenario analysis and strategic financial management and how they will be developed.

7. Covered in recommendation 6.

8. CEC should develop a continuing programme of financial training to Members and officers. It should conduct a survey or assessment to determine existing knowledge of local government finance and financial management skills and help tailor the training or support offer to meet need.

9a. Committee papers should draw attention to the risks associated with decisions, including the risks of deferring or not making decisions

9b. Provide all Committee members with training on risk management

10. That the health check of the ERP is broadened out to address all the implementation issues that are impacting on the council

11. The Finance Service builds into its Service Plan the practical steps it will take to ensure officers are able to exploit the unused functionality of the ERP and to provide support and training to users

12. CEC makes sure its planning for digitalisation and other IT-enabled transformation pays adequate attention to the HR and reskilling aspects that will also be involved

13. CEC works with its transformation partner to identify as part of the plan the practical steps that need to be taken so that the council has a culture of continuous improvement.

3.2 Review Area 2: CAPITAL PROGRAMME / DEBT / INVESTMENTS / ASSETS

An assessment of the council's capital programme / overall debt position including short- and long-term borrowing, and approach to investment / asset management to reach a view on the suitability, VfM and risk exposure of the council in this space, and how this may impact on the overall financial resilience / sustainability of the council.

Key findings and analysis

The overall borrowing and MRP position is unsustainable

The council currently holds loans of £337 million, an increase of £76 million since 31 March 2023. The increase is primarily due to continued capital expenditure including the use of grants received in advance and the need to finance the DSG deficit. A large proportion of the council's debt is short-term borrowing which means around £246 million will be borrowed in 2024/25. Borrowing may be a mix of temporary borrowing in expectation of future rate reductions and some fixed borrowing to provide some certainty.

Figure 4 shows the jump in planned financing costs at CEC between 2023/24 and 2024/25. A large part of the £12 million gap reported in the MTFS for 2024/25 that must be funded by the General Fund Reserve is related to this need to increase the Capital Financing budget by £9.5 million for 2024/25 to £28.5 million.

In 2023/24 the council experienced a material increase in the cost of borrowing with rates averaging at 5.6%, which has seen interest payments rise from £6.1 million in 2022/23 to £12.7 million in 2023/24. This trend is set to continue in 2024/25 with interest costs expected to be as high as £16.4 million if interest rates remain above 5%.

Figure 4 Cheshire East's cost of borrowing as a percentage of its net revenue stream

Ratio of Financing Costs to Net Revenue Stream	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Financing Costs (£m)	19.0	28.5	21.0	22.0	22.0
Proportion of net revenue stream (%)	5.4%	7.6%	5.5%	5.6%	5.4%

The position planned in the MTFS for after 2024/25 is also optimistic on current trends. If the capital programme remained as it is as well as the current need to borrow at today's rates of interest then the Capital Financing budget would need to increase by £12.8 million to £33.9 million in 2025/26 and remain at approximately that level for several years. This additional rise is not planned into the MTFS and is simply not sustainable.

As well as reducing the flow of interest payments, CEC need to reduce the annual repayment of borrowing - Minimum Revenue Provision (MRP). During 2017/18 the council revised its approach to calculating the MRP to release revenue funding and mitigate overspending on services. This consisted of a change from using the straight line to the annuity method. The annuity method typically results in lower initial MRP payments but increases them over time. This means the local council may face higher costs in later years, which could strain future budgets. The annuity method could be perceived as deferring financial responsibility to future taxpayers for current investments. CEC are due to hit the peak of that minimum repayment in 2027/28 for already existing debt and then it should gradually reduce if no new schemes funded by borrowing are added to the capital programme. The rising burden of MRP on the budget during the life of the MTFS is shown in Figure 5.

Figure 5: The capital financing budget deficit from 25-26 to 27-28 if no action is taken to reduce borrowing and repay debt.

Parameter	Value (£m) 2024/25	Value (£m) 2025/26	Value £m) 2026/27	Value £m) 2027/28
Repayment of Borrowing				
Minimum Revenue Provision*	19.2	22.3	24.7	26.3
External Loan Interest	16.4	15.9	15.4	16.7
Investment Income	(2.5)	(2.0)	(1.6)	(1.5)
Contributions from Services Revenue Budgets	(1.5)	(1.9)	(2.9)	(3.6)
Total Capital Financing Costs	**31.6**	**34.3**	**35.6**	**37.9**
Use of Financing EMR	**(3.1)**	**(0.5)**	**(0)**	**(0)**
Actual CFB in MTFS	**(28.5)**	**(21.0)**	**(22.0)**	**(22.0)**
Budget Deficit	**0**	**12.8**	**13.6**	**15.9**

DSG deficit needs to be brought under control.

On top of the borrowing to fund (much of it in advance) the capital programme the other key driver of the need to borrow has been the DSG deficit. The growth in local council deficits on schools' accounts has been a national problem. But the deficit in Cheshire East is now one of the largest in the country and the growth has particularly grown since the pandemic. The unmitigated forecast position for 2030/31 shows total expenditure of £340.4 million against an expected grant of £68.6 million, resulting in an in-year deficit of £271.8 million and a total deficit reserve position of £1.2 billion. The mitigated forecast position for 2030/31 shows total expenditure of £70.2 million against an expected grant and school block transfer of £70.7 million, resulting in an in-year surplus of £0.6 million and a total deficit position of £284.8 million.

CEC has recently reduced its special needs budget deficit by £10.1 million during 2023/24 which will reduce borrowing costs by c£1 million. DSG as a whole overspend for the year was £31.7 million compared to the DSG management plan forecast overspend of £42.7 million. The total cumulative DSG deficit is £78.652 million at the end of 2023/24.

CEC developed a new DSG Management Plan 2024/25 to 2030/31 during the year and the council has placed a determined focus on the strategic aim of the *RIGHT TIME, RIGHT SUPPORT, RIGHT PLACE* programme. A strategic DSG Management Board has been reconfigured and strengthened with new Members including the Executive Director of Children's Services and S151 Officer. The Chief Executive chairs the panel and it is intended there will be member representation, including cross party members from Children and Families Committee and Scrutiny and Finance committees.

The removal of the statutory override which allows local authorities to carry DSG deficits separately from their main budgets after March 2026 would make the financial position of CEC unsustainable and the scale of the deficit already presents a huge cashflow issue.

The council should establish a schedule of regular reviews of the deficit recovery plan to ensure the plan remains on track to bring the deficit under control. The DSG Management Board needs to commission evaluations of early delivered measures in the DSG management plan to learn what has been effective and what might need refinement.

Treasury management is satisfactory but the request for EFS is already negatively impacting on the number of sources of loans

CEC took out several Public Works Loan Board (PWLB) loans in March 2024 totalling £100 million. Of this £60 million was borrowed for periods between 10 and 15 years at an average of 4.68%. This provides some surety of cost at lower than current short-term rates. The remaining £40 million was taken for 1.5 years at 5.33% with the expectation that it could then be refinanced at lower rates.

The application to Government for exceptional financial support, even though not used so far, has led to the council being removed from some potential lenders counterparty lists which did restrict availability of funds in March 2024 and may restrict future borrowing opportunities. The cost of short-term borrowing in 2023/24 was 4.82% (up from 1.66% in 2022/23) and the average rate paid on all borrowing was 4.74%.

Internal Audit carried out a review of the systems, processes and controls in place in relation to Treasury Management in May 2024 to ensure compliance with the Treasury Management Strategy and the CIPFA Treasury Management Code of Practice 2021 and to ensure the identified risks were effectively managed. They found them to be satisfactory.

The balance sheet review currently being conducted by the council will also examine whether there are aspects of treasury management that can be better managed to reduce the financial pressures on the council.

The capital programme needs to be cut back and better profiled and managed

The current capital programme includes:

- Investment in projects to enable the delivery of the aim to be a carbon neutral council by 2025
- Town centre redevelopment and regeneration projects
- Investment in infrastructure to improve walking, cycling and rail capacity in the borough, and capacity on the roads to reduce congestion and improve air quality
- Investment to enable the delivery of housing sites that meet the needs of residents including affordable housing and housing for vulnerable and older people
- Investment in assets to support key front-line services such as improvement to leisure centres, expansion of schools and planned investment to maintain the highway network

The four-year programme includes investment plans of around £0.6 billion, funded through a mixture of Government grants, contributions from other external partners and council resources. When the MTFP was drawn up the forecasted funding sources were:

- Government Grants (£283 million / 48%)
- Other external contributions (£106 million / 18%)
- Receipts from council Assets (£35 million / 6%)
- Borrowing or Revenue Contributions (£162 million / 28%)

At present this programme is not affordable because of the dependence of many of the projects on a continuing need to borrow. A £37 million reduction in capital expenditure per annum equates to a £1 million reduction per annum in the cost of borrowing (interest) charged to the revenue budget. And every £1 million slipped by one year reduces the MRP charged to revenue budget by £67,000 (based on an average 15yr payback period).

A review of the capital programme was started in early Autumm of last year, but finance staff told us it did not progress very far because of competing priorities. The recently established Strategic Finance Board have recognised the urgent need to reduce the capital programme dramatically. They have established a fresh capital programme review and instituted the following controls

1. Where a project requires a significant amount of forward funding an updated High Level Business case is required to demonstrate that the scheme continues to be affordable and necessary in the current climate.

2. The revised business case needs to include the whole life costs of the project, including the cost of cash flowing any forward/upfront funding, the cost of internal/external support and the future running costs of the asset(s) and how that revenue cost is to be funded by indicating which service budget those costs will be charged to and if the additional revenue cost has been allowed for in the MTFS.

3. Sign off from Finance for both capital and any revenue implications will be required to ensure there is sufficient budget allocated to accommodate these costs.

In examining the papers provided to the capital review and some original business cases we found considerable room for improvement in the way individual projects are justified and the way the capital programme as a whole is put together and monitored. We hope the current steps being taken to improve grip of the capital programme will be built upon for the future. There needs to be:

- stronger communication between the project implementing departments and finance at regular stages to ensure that all aspects of a project are considered in the financial forecasting process

- stronger corporate scrutiny of new projects against the council plan and priorities

- a more robust and consistently applied risk assessment framework across the programme that include financial, operational, regulatory and (where relevant) funding risks

- The use of standardised financial modelling software or agreed techniques to help simulate various scenarios and help anticipate risk

It is already too late to make decisions to abandon some projects which appear difficult to justify in a transformed and digital-enabled council, such as the new archives building. For others there may be difficult decisions to make where for example match grant funding is available or needs to be surrendered because the council can no longer afford to make a contribution of its own. This may cover some of the regeneration projects.

The council also has ambitious carbon reduction targets and has a series of projects in development. The council plans to reduce carbon emissions from buildings by adopting the Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' or equivalent standard for new buildings and aiming for the highest BREEAM standard achievable for refurbished council buildings. It also has ambitious plans for solar energy installation at a local airport. The council's capital review has paused the previously authorised key capital projects of procurement of the second solar farm, the largest proposal for tree planting for the next planting season and continuing the next phase of Electric Vehicle transition. The council may wish to consider at a strategic level whether the pace or means of achieving its laudable objectives should be reviewed overall in the light of the current challenges of the capital programme.

It also has a planned requirement of c£40 million for building maintenance which should be reviewed to see if it can be reduced to the basic need to meet health and safety and other regulatory requirements.

The council can draw on its high level of investment assets to help balance the books

The council has adopted a 'Corporate Landlord' model for the management and ownership of its land and property assets. This means that the responsibility for management and maintenance of assets is transferred from service directorates to the Corporate Landlord, which is a centralised function. There are two committees that have an interest in the governance of land and property matters. These are the Finance Sub-Committee and the Economy and Growth Committee.

The council owns a large portfolio of land and property – some 2,654 land and property assets. The value of the council's land and property assets is £1.3 billion. Of course, a great deal of these assets are held for operational reasons and therefore the council would not be able to realise this level of value. The Net Book Value of its investment assets were valued at £27.2 million at the end of 2023/24.

Nevertheless, the council is sitting on several assets which are arguably no longer a good strategic fit with the target operating model to which the council is heading or for which the economic case for holding has changed because of the capital financing costs the council now faces.

The council owns farms estate using almost 4,900 acres of land, offering 47 farms on 19 separate estates geographically dispersed across the borough providing entry level farming opportunities to aspiring farmers. As an income generating service, it is managed to a strategy developed and designed in 2011 and reviewed in 2018 to drive continuous improvement in the quality of offer to prospective tenants, environmental and financial performance within the framework of the council's wider ambitions towards socio-economic and environmental objectives.

We recognise that decisions related to the use of council land and assets can have a significant impact on the economy, environment and communities in rural areas. Nevertheless, we believe the council should review whether the farms strategy remains good value for money and a strategic fit and is in accordance with the direction of the target operating model. It should review whether a phased and controlled sale or partial sale could not contribute to the budget deficit over the life of the MTFP.

The regeneration and development project with the highest value individual asset is the land being held at the North Cheshire Garden Village which is a significant housing development project located near Handforth. The project has faced various planning and local consultation processes. The progress and timelines have been subject to changes, depending on factors such as planning approvals and community feedback. The council should put a pause on this project and consider the various options available in deciding how to proceed with it. One of these options should include disposal.

Cheshire East need to make sure they obtain accurate, up-to-date valuations of potential disposals from qualified professionals and consider market conditions in determining the optimal timing for each disposal. They should conduct a post-disposal review on disposals in the early part of the MTFP to learn from the process and improve future asset disposal strategies.

The council needs to make sure the on-going efficiency benefits of in-housing its waste and bereavement services are realised

Over the last seven years CEC has reduced the number of Alternative Service Delivery Vehicles (ASDVs) from nine down to three. The Finance sub-committee exercises the shareholder interest and operates working groups to examine specific issues. Officers and Members sit or observe on CEC's company boards.

The two main substantive companies (ANSA and ORBITAS) deliver Environmental and Bereavement Services on behalf of the council. ANSA (waste collection, recycling street cleansing and grounds maintenance and passenger transport and fleet maintenance) has taken over the operation and management of ORBITAS (bereavement services) and started to branch out its services to neighbouring local authorities.

The council has recently reviewed its relationship with ANSA and concluded that it has been allowed to operate, administer and manage the services without sufficient control or stringent enough performance measures that would directly challenge them to enhance service standards or reduce costs. It has therefore decided to take these services back into direct operation. The council is establishing Management Boards until each of the services is brought back in-house phased through until March. The companies have reserves of c£2 million and annual savings will be £200,000. CEC plan to draw down £1.5 million in dividends to contribute to current financial position in 2024/25 and final dividend next year.

The key drivers for taking these services in-house is the immediate contribution a dividend call on their reserves can make to the immediate financial position of the council and the additional direct control the council can bring in driving down the costs of the services they provide.

There is a considerable task to restructure the legal and governance frameworks to integrate the company back into the council, plan for the transfer of employees and ensure services continue without disruption. The service will need to operate robust risk management to identify and mitigate potential risks, including financial, operational and reputational. As part of the transformation agenda the council should develop a benefits realisation plan for this work to help identify, direct and monitor the savings and improved services that should result.

The council needs to review whether its interest in Alderley Park Limited can contribute to the funding gap at some stage over the life of the MTFS.

There are two companies other than ANSA associated with the council:

- Tatton Park Enterprises is a company through which the council provides catering in Tatton Park historic house and parkland. The council holds a long lease from the National Trust. The catering function used to be bought-in but the contractor wasn't performing and it was decided to transfer the operation into a wholly owned company. The catering function is hardly operationally distinguishable from the other functions managed at Tatton Park. The council assesses that bringing the company in-house would prove more expensive than the current arrangements.

- Alderley Park Holdings Ltd (APH Ltd) is an intermediate holding company which holds the interests of Bruntwood Group and CEC in Alderley Park Limited (APL) and its associated investments. Alderley Park is a 400-acre site that is home to an internationally recognised bioscience campus. Historically, it was the home of Astra Zeneca (AZ) but when they announced that they were relocating to Cambridge, Bruntwood acquired the site alongside CEC and Manchester Science Parks to ensure that the skills were not lost when AZ left. As such, a Development Framework was approved by CEC in 2015, with the aim of redeveloping and repositioning Alderley Park as a multi-occupier campus. CEC is a minority shareholder (10%) in APH Ltd. Alongside this, and an intrinsic part of the investment in shares, is a £1.5 million interest free loan to APH Ltd.

CEC should review its holding in Alderley Park Limited with a view to seeing if there are options that would realise a contribution to the funding gap over the life of the MTFS.

Risks

14. The DSG deficit is not kept under control

15. Financing costs falling to the General Fund are not curtailed

16. Ambitious carbon reduction targets contribute to financial challenges

17. The council does not make hard decisions to dispose of some of its assets or review the affordability of some of its strategies, policies and non-statutory services

18. The benefits of in-housing ANSA waste and recycling services are not realised

19. CEC does not realise its investments where possible to help reduce the MTFS spending gap

Recommendations

14a. The council needs to continue to work closely with the Department for Education so that it is accepted on the SV programme as the only realistic solution to bringing its DSG deficit to sustainable levels over the medium term.[2]

14b. The council should establish a schedule of regular reviews of the DSG deficit recovery plan to ensure the plan remains on track to bring the deficit under control

[2] Update: The Safety Valve programme has been withdrawn nationally since this report was drawn up. New specialist places will be created in mainstream schools (link)

14c. The DSG Management Board needs to commission evaluations of early delivered measures in the DSG management plan to learn what has been effective and what might need refinement

15a. CEC action any recommendations made by its Treasury management advisors in support of balancing the books this year.

15b. The council needs to review its capital programme and where overall Value For Money (VFM) is not threatened cut or defer individual projects.

15c. The council needs to improve its future capital programme management by:

- Strengthening communication between the project implementing departments and finance at regular stages to ensure that all aspects of a project are considered in the financial forecasting process

- Strengthening corporate scrutiny of new projects against the council plan and priorities

- Implementing a more robust and consistently applied risk assessment framework across the programme that include financial, operational, regulatory and (where relevant) funding risks

- Using standardised financial modelling software or agreed techniques to help simulate various scenarios and help anticipate risk

15d. CEC should abandon or defer projects that require match funding and borrowing where overall VFM is not threatened, or savings are not delivered

16. CEC should review whether the pace of its carbon reduction ambition is achievable given current financial challenges

17a. CEC should review whether its farms strategy remains good value for money and a strategic fit and is in accordance with the direction of the target operating model being developed. It should consider whether a phased and controlled sale or partial sale could not contribute to the budget deficit over the life of the Medium-Term Financial Plan (MTFP).

17b. CEC need to make sure they obtain accurate, up-to-date valuations of potential disposals from qualified professionals and consider market conditions in determining the optimal timing for each disposal.to secure VFM

17c. CEC should conduct a post-disposal review on disposals in the early part of the MTFP to learn from the process and improve future asset disposal strategies.

18a. CEC need to operate robust risk management in the in-housing of ANSA so as to identify and mitigate potential risks, including financial, operational and reputational.

18b. CEC should develop a benefits realisation plan for the in-housing of ANSA to help identify, direct and monitor the savings and improved services that should result.

19. CEC needs to review whether its interest in Alderley Park Limited can contribute to the funding gap at some stage over the life of the MTFP.

3.3 Review Area 3: GOVERNANCE

An assessment of the council's approach to overall governance / management processes, leadership, operational culture, capacity and capability to reach a view on whether the council is operating in line with the Nolan Principles and in a way to secure continuous improvement.

The adequacy of the council's decision-making processes including presence / absence of clear schemes of delegation, scrutiny arrangements, quality of council papers and whether there is a clear understanding of governance arrangements across all levels of the council. This should include a view on the effectiveness of the adopted Governance model and whether it is suitable to drive the right outcomes for the area.

Key findings and analysis

Challenges of financial decision-making under a committee system

Between 2014 and 2018 CEC faced a series of controversies and governance challenges, including allegations of misconduct, bullying, and issues with the conduct of senior officers. These issues undermined public confidence in the council's leadership and governance arrangements. A lack of broader involvement in decision-making processes led the council to replace the Cabinet system with a full Committee system.

While the Committee system can offer benefits such as broader participation in decision-making and a more inclusive approach, it does have several disadvantages compared to the Cabinet system. These include slower decision-making, diffuse accountability, potential inconsistencies, a higher workload for councillors, and challenges in maintaining strategic focus. Some examples of the problems it creates in terms of financial decision-making in CEC are:

- Place-based decisions must be managed through three separate Committees
- There are examples of different formats and forms of financial reporting across Committees.
- The current MTFS is 464 pages long with each Committee having separately itemised revenue and capital budgets and reports.
- A high proportion of finance staff time must be devoted to the analysis and support required by each Committee.

We recommend the council review what quick steps can be taken to prioritise urgent and strategic financial issues, ensuring they move through the committee system more quickly. This can involve fast-tracking important decisions or holding additional meetings when necessary. It should also cover making financial reporting to Committees simpler and more consistent – perhaps by moving to a single template for monitoring and reporting for the council as a whole, subject to the agreement of the Monitoring Officer.

Two key committees in the coming months will be the Corporate Policy and Finance Sub Committees. Streamlining decision-making will be crucial. The council should develop a decision-making matrix outlining the types of decisions that will require input from one or both committees (and where relevant the Service Sub-Committee) and provide integrated reports that address both policy and financial implications of proposed decisions.

Schemes of delegation

Proper financial delegation ensures that spending is kept within budgetary limits, as only authorised personnel can approve expenditures. This control is vital for maintaining fiscal discipline and avoiding budget overruns. A well-designed financial delegation framework ensures that spending and financial decisions are aligned with the local council's strategic priorities. This alignment is crucial for achieving long-term objectives and ensuring that resources are allocated effectively.

Clear systems of delegated powers can speed up decision-making and reduce delays. One officer told us that she found the system of financial authorities and delegations "woolly" compared to the council in which she had worked previously. Two officers we interviewed told us the slowness of getting decisions from Committees encouraged some officers to take the view that if they needed to decide it was better to bend the rules as much as possible in order to make the decision themselves. During several of our interviews officers told us it could take a long time to get the appropriate advice on governance issues which resulted in delays in making critical decisions.

The current post committee constitution at CEC provides for wide discretions for officers. We understand that this was to ensure the council functioned after the adoption of the committee system and to provide a balance to some areas of tightly controlled member engagement such as restructures etc.

We were told that several discretions could be deemed too broad or unclear to enable officers to make decisions about which reports should be sent to committee. We were told the question often asked is must this decision go to committee and little discussion on should the decision go to committee. And "must" can be interpreted differently across different services. Another officer told us there was a culture of "shopping around" amongst officers if we they didn't like the governance advice they received.

In a recent review of Officer Decision Records during the previous six months, the council found different approaches at different levels and in different areas. Some parts of the organisation have embraced the Committee system and the need to comply with the regulatory and other requirements whilst others are struggling. In general, officers are willing to change their practices but are uncertain about how to do it.

Unfortunately, there are continuing issues of deeper-rooted misunderstanding of how the scheme should govern decision-making. The Monitoring Officer drew our attention to recent examples of poor officer understanding of how delegation and financial procedures should operate:

- a credence that where a budget line allows for funding to be provided for a generic purpose that has been interpreted as a delegated council to do a specific act.
- a lack of understanding that the Financial Procedure Rules outline authorization limits for fund movements and expenditure processing. These rules do not delegate authority to the council to carry out specific actions. provide authorisation limits for movement of funds and processing of expenditure. These are not delegated council to undertake a specific act.
- officers state they are giving effect to what they believe members desire but without a formal decision by members. This can translate into, for example, not obtaining full cost recovery on services.

Another specific governance concern that was raised was that some service directors and heads of service (most often within the Place directorate) would commission their own external legal advice because they believe they would have more influence over it than the advice provided by the in-house team which they often did not like. CEC needs to make sure it has clear protocols and procedures governing all requests for advice and where an officer is unsatisfied with the initial legal advice there should be a formal procedure for reviewing the advice internally.

The council has recognised the urgent need to address these types of issues, and the Constitution Committee has recently approved a review of the scheme of delegation arrangements with a view to producing a scheme for each of the council's directorates in line with those at Wirral council, which also has a full Committee system. This will authorise officers at a lower level within the organisation to undertake various functions currently set out within the local schemes. It is intended to provide advice to each directorate on the production of a lower level local scheme and review the financial procedure rules and the levels of delegation providing advice. It is also planned that this review will redraft the definition of 'significant decision' and, in the light of the current financial challenges, reduce the value from £1 million to £0.5 million. The council has appointed a consultant lawyer with experience of the system at Wirral to undertake the review.

The Monitoring Officer told us that previous finance leads had not always seen eye to eye on these issues. One of the key controls that would prevent financial decision-making without appropriate council would be for Finance not to make funding available until compliance had been demonstrated. It is unclear how the control failings have occurred but there is in-built and unnecessary complexity/confusion by the current separation of the financial limits from the scheme of delegation.

Balancing the need for flexibility in making swift financial decisions with ensuring Members are appropriately involved in those decisions is difficult. We were pleased to see that the current S151 officer is working closely with the Monitoring Officer in this area and that the Strategic Finance Board recognises its importance by included a monitoring line for the delegation stream of work. It is vital that the Monitoring Officer and S151 officer present a common position.

Whilst the review should help to make the scheme clearer, the council need to make sure there is the follow-up to address the behavioural and understanding issues. It will be important to use clear and concise language so that the document is easily understood by all members of the council, regardless of their position or expertise. The council needs to develop a plan to engage officers and communicate the revised arrangements through multiple channels. There needs to be mandatory training sessions especially for those currently affected by the delegation and offer ongoing support and refresher training to ensure that employees stay informed and compliant. And there needs to be sufficient resource within the Monitoring and Governance Directorate to provide ad-hoc advice to appropriate deadlines.

There is of course a risk that in seeking to reform the scheme of delegation to provide for less discretion that it slows down decision-making. And that is why it will be important for the governance team to have the systems and resources to be able to provide ad-hoc advice quickly. Internal Audit should undertake follow-up work in 9-12 months' time to see if understanding and practice has improved and whether there is any impact on the speed of decision-making.

The council last revised its Code of Corporate Governance in January 2017 to ensure compliance with updated best practice guidance from the CIPFA and Society of Council Chief Executives (CIPFA/SOLACE). The council reports performance against the code in annual governance statements, the last one of which was for 2022/23, and which raised three issues which have been identified in May 2024 to be continuing significant concerns:

- council funding – covered in this report at Review Area 1
- Planning – covered in this report at Review Area 4

- Executive and Wider Leadership team capacity – covered in this report in the next section

The council needs to review its Code of Corporate Governance in 12 to 18 months' time to ensure it reflects the many changes in structure, process and governance that should have been implemented by then. And to provide renewed assurance that the council is operating in line with the Nolan principles.

Scrutiny

CEC operates a designated Scrutiny Committee responsible for carrying out the council's statutory scrutiny duties. But under the Committee system operated by CEC this Committee is exclusively focused on partnership performance and relationships, i.e. scrutiny of crime and disorder, flood risk management, and local health services.

A Committee system does not require by statute a scrutiny function. That does not of course preclude the council from extending the remit of the current committee. The Chair of the Scrutiny Committee told us how frustrating current arrangements were, given the need to focus on the important internal decisions that were being forced upon the council due to the financial situation.

At establishment of the Committee system the recommendation made to the council was that each Committee would appoint a scrutiny lead (who in effect was the lead member of the opposition on the Committee) to act as a "critical friend" to the committee and the council at large. They are expected to provide constructive feedback, challenge assumptions, and ensure that the decisions being made by their particular Committee are in the best interest of the public.

The Monitoring Officer stated that this function had never been formally accepted. Two members noted that this was due to the scrutiny leads having limited formal authority to compel action and the unlikelihood of receiving the administrative and research support necessary to perform such a function effectively.

The Monitoring Officer is aware of this weakness. He has recently made a recommendation to the Constitution working group to approve the nomination of champions for scrutiny on each Committee.

But the council also needs to consider what further support the scrutiny leads can be given to support them in exercising their function.

The presence / absence of a clear, outcome orientated, measurable and performance driven strategic direction for the council and whether this is clearly set out through alignment of the key strategy documents (Corporate / Strategic Plan, Annual Governance Statement and Medium-Term Financial Plan). This should include an assessment of the extent to which the strategic direction of the council is present throughout operational implementation or whether it exists in 'name only'.

This is covered in section 3.4.

A view on the effectiveness of council leadership including their ability to work effectively together, set and communicate a clear vision and set of priorities for the local area, as well as their ability to lead the delivery of those priorities (as set out in key strategy documents) through the fostering of a cohesive organisation built on cooperation, trust and respect.

Key findings and analysis

Ensuring that there are sufficient and stable senior management arrangements for an organisation the size and complexity of Cheshire East Council must always be balanced against ensuring the arrangements are proportionate and offer effective and efficient use of resources. A key issue, also identified by the LGA peer review, is whether the council has the leadership and capacity to take forward and direct the scale of activity and decision-making required to balance this year's budget at the same time as setting in train the more fundamental transformation required to deliver medium and longer-term improvement.

The council's Corporate Leadership Team (CLT) comprises the Chief Executive as Head of Paid Service, with the most senior officers of the organisation; Executive Directors for each of the council's 4 Directorates and the council's Statutory Officers, (S151 Officer and Monitoring Officer). CLT meetings are also regularly attended by the Cheshire East Place Director (Cheshire and Merseyside Integrated Care Board).

During 2022/23, interim arrangements were introduced to manage the absence of the Executive Director, Place. In October 2023, the Executive Director, Place left the council, and it was confirmed that the interim arrangements would continue. However, these interim arrangements are not subject to backfill which impacts upon the wider management capacity within the Place directorate.

In May 2023, the Executive Director of Corporate Services left the organisation, and interim management arrangements were put in place for this Directorate, which ensures direct reporting lines between the Head of Paid Service and the Section 151 and Monitoring Officer roles.

The former Chief Executive left Cheshire East Council on the 13 October 2023. On 13 December 2023, the council appointed a permanent Chief Executive who took up post on 3 January 2024. The Section 151 Officer left the council in May 2024 and an interim replacement took up post on 29 April 2024.

During our review the Executive Director for Children's Services also left with her post being filled temporarily by an existing interim Director within Children's Services. Specific concerns were raised with us by Heads of Service within the Children's services about leadership capacity within the service caused to some degree by the departure of the Executive Director and the need to deliver the OFSTED improvement plan. Some concerns were also raised with us about the lack of leadership capacity within the Place Directorate, although it was generally recognised that given the scale of reform and improvement required in Children's compared to Place the capacity gap was more an issue for the former.

Concern was raised with us about the high number of interim or acting posts at Director level with just 5 of 13 being permanent.

CEC have held a series of development sessions for CLT and WLC. Recruitment of a number of key senior interim roles has also begun and includes the director of Policy and change and the Executive Director Corporate Services.

All the senior staff and Members to whom we spoke had considerable confidence in the recently appointed Chief Executive and interim S151 Officer to turn things round. Many spoke of the grip and appropriate focus they had brought this year to achieving recovery. But of course, they need stable leadership to support the steps that will need to be taken across the council over the next few years.

The LGA has undertaken a Decision Making Accountability (DMA) review to examine current senior management roles to help ensure a stable senior management structure is in place. This has provided recommendations for a revised organisational structure which at the time of our review were being taken to Members for decision.

At present the S151 Financial Officer reports to a Director of Corporate Services. We would expect the review to consider the replacement of the Corporate Services post with a role led by the S151 officer and which encompasses the Corporate Directorates and unifies all the co-ordinating and programme management activity addressing financial recovery and transformation.

The council also elected a new Leader, Councillor Nick Mannion, in July 2024. This would have had the potential to disrupt the recovery and transformation programmes. However, Councillor Mannion has been engaged with developments in his previous capacity as a Committee Chair, through regular officer briefings. In our meetings with the Leader, we found he acknowledged the challenges ahead for the council including issues with financial management and scrutinising spending. He emphasised the need for Members to receive as real-time as possible financial information. He recognised the need for more integrated and joined-up service delivery across council operations.

In all our interviews with Members and Officers we found a mutual respect and a shared understanding of the financial challenges the council faced and the difficult decisions that might need to be made.

The council faces an unprecedented set of challenges that require a huge amount of change, and exceptional transformation capacity. It is framing this work in terms of four main priorities:

a) Ofsted improvement activity – addressing the shortcomings identified in the May 2024 inspection of Children's Services.

b) MTFS – delivering the planned savings as part of the balanced budget and making robust plans for reductions as part of this year's budget setting process.

c) Peer Challenge – implementing the recommendations from the LGA that are intended to improve the ability of the organisation to perform effectively as a council.

d) Transformation – delivering a programme of more ambitious, cross-cutting transformational changes

The response to this review must be added to this list.

Responding to the need for activity on all these fronts requires a higher volume of work, and therefore capacity, than it has previously experienced. It does not have an established corporate project and programme delivery framework that will help it manage this change effectively. It recognises that it needs to invest in developing a robust delivery methodology, governance framework and capacity to equip it for delivery across the piece.

However, in its present financial constraints, it will have to find most of this additional capacity within existing resources and using its existing staff. Not being able to release sufficient staff with appropriate skills to support the recovery workstreams is a major risk to delivery.

A view on the working culture and working relationships across all levels of the council including between political and officer leadership, and senior officers and junior staff.

Key findings and analysis

During our interviews we found many individual service managers who understood that change was required but were looking for stronger leadership and direction and better programme and project management tools or support to help them take it forward. Several Heads of Service expressed frustration with the sluggish pace of decision-making.

Some officers told us that a deep-seated problem within the council was the fact that so many officers predated the governance issues and “scandals” that had affected the council up until 2018. This had helped to breed a risk-averse culture and a fear of innovation. The financial challenges had led to some directorates retreating to silos rather than working across Directorates to develop solutions. Some told us they were waiting to see what the impact of the newly developed transformation plan would be on their role and ways of working.

Several staff raised the fact that the slow and bureaucratic recruitment processes in CEC can leave teams understaffed, increasing the workload for remaining employees and potentially disrupting services, leading to delays or reductions in service quality. This was particularly a worry for the staff we talked to in the Children’s Services department who noted how much the OFSTED improvement plan depended on attracting candidates with the right expertise to work in CEC as soon as possible. They cited past examples where high-quality candidates had chosen to accept offers from more agile organizations. Staff within the Place directorate noted two vacancies that had taken 5 and 8 months to fill.

We spoke to several of the more than 40 Heads of Service. We were struck by the thirst there was to work more collaboratively both across individual services but also across departments. This was particularly the case in Children’s Services and Adult Social Care but also applied across some of the Place Directorates too. Some Heads of Service told us that culture and performance incentives did not exist to support this type of working. One assessment noted that the leadership of the organisation preside over a deeply siloed organisation and must act as one to challenge this, if it is to successfully deliver major change and transformation.

We found several examples of where silos were working (or had in the past worked) against VFM:

- the failure of the planning department to co-ordinate across the Directorate and the wider council on planning applications and on S106 monies
- commissioning of expensive external Counsel by Children’s Services because of lack of capacity of cheaper internal legal expertise
- the OFSTED adverse inspection had galvanised Heads of Service within that Service to work across the Directorate
- Cultural and Neighbourhood services working more closely together on provision of libraries
- Housing and Children’s Services on alternatives to supported living

The council has recognised that it does not have experience of delivering the level of change likely required by their situation and challenges. The council commissioned an organisational readiness assessment from Inner Circle Consulting to help them understand their strengths and areas for development in relation to capacity and capability of delivering a large complex transformation Portfolio. This work built upon the recent self-assessment using the LGA’s framework.

The assessment found that although there was a low readiness for change, the leadership was aware of this and had started to take actions to improve maturity of the organisation. It detailed a set of specific recommendations that the council could implement to boost maturity levels and readiness for transformation. In our view the key recommendation of that review is that “*the council needs a vision for what a transformed organisation could and should look like, one that supports positive outcomes within sustained and significantly reduced finances.*”

The council's capacity and capability to improve and transform at an operational level (i.e. sufficient expertise, staff etc.) and at a cultural level (i.e. acknowledgement of problems, openness to constructive criticism and change, delivery with local partners, and collaboration with sector support).

This is covered in section 3.4.

Risks

20. The scheme of delegation does not achieve the right balance between the need for flexibility in making swift financial decisions with ensuring Members are appropriately involved in those decisions.

21. Officers do not understand the implications of a revised scheme of delegation

22. The Committee system slows decision making down

23. The scrutiny function within each Committee is inadequately exercised

24. The Code of Corporate Governance becomes outdated

25. Recruitment delays impede improvement

26. Silo working continues to impede improvement

27. The commissioning and provision of legal advice is not VFM

Recommendations

20. Internal Audit should undertake follow-up work in 9-12 months' time to see if understanding and practice has improved and whether there is any impact on the speed of decision-making.

21a. The council needs to develop a plan to engage officers and communicate the revised delegation arrangements through multiple channels. There needs to be mandatory training sessions especially for those currently affected by the delegation and offer ongoing support and refresher training to ensure that employees stay informed and compliant.

21b. The council needs to ensure there are sufficient resource within the Monitoring and Governance Directorate to provide ad-hoc advice on issues of delegation and Officer Delegated Reports to appropriate deadlines.

22a. The council review what quick steps can be taken to prioritise urgent and strategic financial issues, identifying the critical path and ensuring they move through the committee system more quickly. This can involve fast-tracking important decisions or holding additional meetings when necessary.

22b. The council should develop a decision-making matrix outlining the types of decisions that will require input from one or both committees (and where relevant the Service Sub-Committee) and provide integrated reports that address both policy and financial implications of proposed decisions.

23. CEC should consider what further training, advice and support can be provided to Committee "scrutiny champions"

24. The council needs to review its Code of Corporate Governance to ensure it reflects the many changes in structure, process and governance that should have been

implemented by then. And to provide renewed assurance that the council is operating in line with the Nolan principles.

25. CEC needs to improve recruitment procedures so they do not impede development of the Children's Services improvement plan.

26. CEC should review how cross-Directorate and cross-Service working can be more encouraged and incentivised.

27. CEC needs to make sure it has clear protocols and procedures governing all requests for legal advice and where an officer in unsatisfied with the initial legal advice there should be a formal procedure for reviewing the advice internally.

3.4 Review Area 4: SERVICE DELIVERY

An assessment of the effectiveness of council service delivery reflecting the importance of delivering outcome orientated, citizen focused services to reach a view on the council's ability to deliver services that are economic, efficient and effective, striking the right balance between cost

Key findings and analysis

This section reviews corporate effectiveness and performance data at CEC before considering the current approaches to quality, efficiency, savings and improvement initiatives in the Place, Children's Services and Adult Social Care Directorates.

Corporate performance

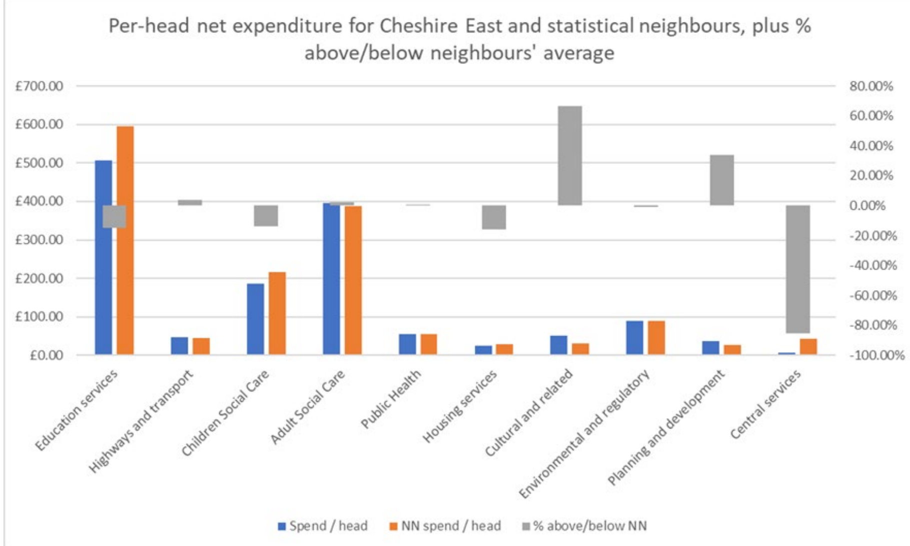
Benchmarking data is not systematically reviewed or reported but the council does use KPIs to measure performance against its 20 strategic priorities

There is no systematic use of benchmarking in CEC. However, most of the service managers to whom we spoke were aware of the key comparative performance and cost data in their services. Benchmarking is used to support individual pieces of analysis. Where benchmarking is used, it is consistent with the benchmarking information produced by CIPFA. Services are encouraged to look at comparators when determining business plans and KPIs, but there is nothing co-ordinated or prescribed. The quarterly performance reports against KPIs which go to Cabinet and Committee do not report comparative data. We have undertaken an analysis from CIPFA's nearest neighbour financial resilience statistics for 2022/23 but significant developments in CEC services in 2023/24, and in the first quarter of this year and the current financial position mean they are of limited value.

We have not been able to fully assess the efficiency of all service areas but Figure 6 below provides an overall summary of per capita spend on different services against nearest neighbour for 2022/23. It shows considerably higher net per capita spending on cultural and related services as well as on planning and development. And slightly lower spend on Housing and Children's Social Care.

The council told us that it had not been aware of the higher per capita expenditure on cultural and related activities. At first glance it might be that the council's operation of Tatton Park with a net budget of £1.3 million might be a factor. However it is clearly not the only factor making up the differential, and it could be that the council was spending more on parks and open spaces than others. This was an indicator and area for them to further explore.

Figure 6 Per-head net expenditure on different services compared to statistical neighbours



The council's Corporate Plan 2021-25 outlines 20 priorities for the council, 6 aligned with the "Open" aim, to be an open and enabling organisation, 8 priorities are aligned to the "Fair" aim, a council which enables and cares about people and 6 priorities are aligned to the "Green" aim, a thriving and sustainable place. A new Cheshire East Plan is due to be developed by the end of this financial year for 2025 and beyond. Based upon the work so far, the future priorities are likely to be similar to those in the current plan but will also be informed by the council's improvement and transformation activity, overall ambitions for its communities and growth, and aligned to the MTFS.

The 20 current priorities are shown in Figure 7

Figure 7 Cheshire East Council priorities

An open and enabling organisation

- Ensure that there is transparency in all aspects of council decision making
- Listen, learn and respond to our residents, promoting opportunities for a two-way conversation
- Support a sustainable financial future for the council, through service development, improvement and transformation
- Look at opportunities to bring more income into the borough
- Support and develop our workforce to be confident, motivated, innovative, resilient and empowered
- Promote and develop the services of the council through regular communication and engagement with all residents

A council which empowers and cares about people

- Work together with residents and partners to support people and communities to be strong and resilient
- Reduce health inequalities across the borough
- Protect and support our communities and safeguard children, adults at risk and families from abuse, neglect and exploitation
- Be the best Corporate Parents to our children in care
- Support all children to have the best start in life
- Increase opportunities for all children and young adults with additional needs
- Ensure all children have a high quality, enjoyable education that enables them to achieve their full potential
- Reduce the reliance on long term care by improving services closer to home and providing more extra care facilities, including dementia services

A thriving and sustainable place

- A great place for people to live, work and visit
- Welcoming, safe and clean neighbourhoods
- Reduce impact on the environment
- A transport network that is safe and promotes active travel
- Thriving urban and rural economies with opportunities for all
- Be a carbon neutral council by 2025

Performance against indicators showing progress on these priorities is presented by the Monitoring and Governance Officer to Corporate Policy Committee every quarter. The last report was scrutinised in June this year and covered the quarter ending in March 2024. Key findings included:

- 98.7% of local taxation (Council Tax and business rates) were collected in Q4, a continued, increase on the previous quarter and is now at the level of the annual target of 98.7%
- 68% of Stage 2 complaints have been resolved within timescales, which represents a continued increase on 56% in Q2
- The rate of Education, Health and Care Plans completed within 20 weeks has declined to 46% below the national average of 59%
- The percentage of children's social care assessments completed within 45 days has increased to 95% (compared to 88% in Q3)and remains above the national percentage of 82%
- the number of planning applications in hand are now at 200, which represents a significant reduction from Q1 levels of 400
- The percentage of waste collected sent for recycling and reuse remains reasonably steady at 52% against annual target of over 50%

In its productivity plan approved in July 2024 the council acknowledged that further work is required to ensure its performance reporting approach is robust, consistent and embedded to address the challenges faced.

We noticed that there was a heavy focus on quantitative activity and output data in the reports to the Committee. The report might be improved by presenting more qualitative and outcome data and analysis on issues of user satisfaction and community impact. There was scope on several indicators to include performance against national benchmarks, even though such data might be lagging and to show trends in performance across the KPI suite, not just selected indicators.

Risks

28. Higher than comparable neighbour per capita spend on cultural and related activities is poor VFM

29. Corporate performance reporting is not best practice

Recommendations

28. CEC should investigate the validity of the indicator and investigate the implications for VFM.

29. Report to Corporate Policy Committee could be improved by providing more consistent trend data across the range of activity in support of CEC priorities and including benchmark data where appropriate.

Place

The Planning Department faces considerable challenges in delivering improved services and better financial control

According to a survey conducted by the Royal Town Planning Institute (RTPI)in November 2022, nearly 90% of local authorities reported struggling with a backlog of planning applications and enforcement cases. This issue has been exacerbated by factors such as a significant reduction in resources allocated to planning departments over the years, difficulties in recruiting and retaining skilled planning officers, and increasing workloads. And the change of national government will likely bring further changes in the planning approval system that may place further strain on authorities' resources.

A planning application backlog has developed in CEC from before 2020/2021 because of increasing workloads, vacant posts and impacts on delivering the service from the Covid 19 pandemic. The backlog attracted complaints from both within and beyond the council. The then Executive Director for Place undertook a deep dive review into the service with the aim of reducing the backlog of planning applications. The service is approximately 11 months into an anticipated 18-month period of change required to implement the service review findings.

We found that workloads remain significantly high across the service – particularly in relation to application caseloads. Work is underway with statutory consultees in other parts of the council (such as greenspace and flood risk) where there are also backlogs which are impacting on planning decision timescales.

The implementation of a new IT system for Planning and Land Charges has continued to be delayed because of supplier difficulties which has resulted in escalation with legal. This project has impacted on available resource to deliver service transformation. A service restructure was delayed but has now been put out to consultation. The application backlog has slowly reduced over the last 12 months and is now just above normal levels but there remain significant challenges with staff retention and recruitment, impacting on customer service.

It is essential for CEC to get on top of planning application backlogs so that they don't become a block on local economic growth and meeting housing needs or weaken public trust. The council needs to continue to keep the pressure up on the planning department to improve its performance, including through scrutiny by the relevant Committee

In November 2023 Internal Audit carried out a review of the policies, systems and procedures in place to manage S106 agreements. It found inaccurate and inconsistent recording of time limited contributions versus non time limited contributions making it difficult to draw meaningful conclusions as to whether contributions received have been committed and spent in accordance with agreed deadlines. The review concluded that there is a lack of strategic oversight of the management of S106 internally within CEC's Planning and other relevant service areas, as well as by the Environment and Communities Committee.

CEC is not alone in facing issues with managing S106 monies. A recent estimate was that local authorities were nationally holding around £1.5 billion of unspent S106 contributions, with a substantial portion of these funds not allocated to any specific future projects.

Like other local authorities CEC need to take robust steps to ensure their management and accounting of these funds is in accordance with legal obligations and effective financial planning. But there are additional reasons this review should be an urgent priority for CEC. There may be deferred income which could be recognised as revenue to support the funding gap if the associated conditions with individual projects have been met or the projects have been completed.

Environment and Neighbourhoods have driven up CEC income through a green waste charge but face the challenge of delivering against savings targets many of which have slipped from last year.

Several savings projects were identified in this Directorate as part of the contribution to savings in 2023/24 and 2024/25. These include:

- **Libraries Service Review** – July 2023, £880,000 savings achieved via a review of opening hours to align to most used times
- **Green Waste charge** – July 2023, £4.05 million permanent income
- **Household Waste Recycling Centres Review** – ongoing process to review and potentially rationalise the boroughs provision in line with statutory guidance, final

decision on track for Sept 2024. MTFS saving of circa £200,000 which is net of borrowing for required capital investment costs

- **Green Spaces Maintenance Review** – Feb 2024, standardise maintenance across all CEC owned green spaces, saving £660,000
- **Strategic Leisure Review** – March 2024, modification of leisure operating agreement to reduce fee from current £1.3 million to £nil over short term via range of initiatives including invest to save programme
- **Move to 3 weekly residual waste collections** – July 2024, consultation stage to go live early September, implementation decision scheduled for November, saving of circa £1.5 million

Environment and Neighbourhood Services has an overspend of £2.3 million against a net budget of £48.2 million in 2023/24. In part some of this overspend could be attributed to slippage in delivery against savings targets. Many of these savings targets have been carried forward and must be achieved in 2024/25. The Service needs to learn from some of the slippage so that in future initiatives the savings to be delivered are better and more realistically profiled. Establish clear milestones and deadlines for each phase of the savings programme. This would allow for regular tracking of progress and early identification of potential delays or slippage.

Risks

30. Planning Department and others do not improve management of Section 106 (S106) monies or bring down backlog of planning applications

Recommendations

30a. The council needs to continue to keep the pressure up on the planning department to improve its performance in addressing the planning application backlog and the need for better custody of S106 monies, including through scrutiny by the relevant Committees.

30b. CEC needs to review whether it can apply any sS106 deferred income to the General Fund this year and contribute to the funding gap

Children's services

Cheshire East's financial fragility and risk is significantly exacerbated by the council's requirement to fund and deliver significant improvements following Ofsted's "inadequate" judgment.

At one level the issues around financial fragility and risk faced by children's services in Cheshire East are similar to those across the country, i.e. providing proper levels of care, support and protection under existing service models while at the same time seeking to improve children and families' quality of life, experiences and outcomes through enhanced focus on early help and intervention strategies. The underlying principle is that these approaches are also substantially cheaper and better value for money. However, in all localities this shift needs investment. The risk of under-investment in early help and intervention is that demand for more intensive and expensive services increases over time with poor experiences and outcomes for the most vulnerable children and families.

The complexity of addressing these drivers of financial fragility and risk in Cheshire East is exacerbated by the need to tackle serious performance issues in the council's challenging financial circumstances. The Ofsted report published in May 2024 concluded that the impact of leaders on social work practice, and the experiences and progress of children needing help and protection, "require improvement to be good", and the experiences and progress of care leavers "inadequate". The risk that focusing on the essential improvement requirements diverts attention from wider strategic transformation is understood by the council, evidenced for example by inclusion in the MTFS of focus on the development of robust edge of care services, designed to reduce numbers of children in care and associated costs.

The council has responded to the Ofsted report with the production of a comprehensive improvement plan which has council approval and will be the focus of discussions and appropriate monitoring with Ofsted. The Improvement Plan is clearly corporately owned and located within the context of the council's wider transformation programme. The plan references: *"Challenges for children's services are challenges for the whole council, and there is whole-council commitment and support for delivering this plan".*

The plan is well laid out and structured, following the seven areas for improvement highlighted in the Ofsted report, with appropriate leading emphasis on:

- senior management leadership and oversight
- focus on care leavers, as this is the area requiring the greatest improvement.

The council's determination to deliver improvements at pace is indicated by the prevalence of green and blue RAG ratings against the relevant actions. However, in the present climate, and especially with the current absence of senior leadership, delivery to plan may be over-ambitious and will require continued support and challenge. This is despite the obvious commitment of senior managers demonstrated in interview. It will be important too that that three particular challenges identified in the recent LGA Peer Review do not hinder delivery of the Improvement Plan, i.e. siloed working across departments, lack of compliance with appropriate corporate requests and direction, and (specifically mentioned by managers) frustration regarding the implementation of new Finance and Human Resource System (Unit 4) currently causing delays and inaccurate information.

The council is well aware of the risks to its reputation, and more importantly to children, if the improvement plan is not fully and sustainably delivered and has therefore committed itself to funding the plan. Additional revenue costs are expected to be required for an 18-month period, due to start in September 2024, resulting in 7 months of costs in 2024/25 and a further 11 months in 2025/26. The revenue costs are estimated to be £1.987 million in total, profiled as £628,000 in 2024/25 and £1.359 million in 2025/26. In the time available it is not possible to validate £2 million as an adequate figure for additional funding, but experience suggests it is low.

Moreover, there are some significant dependencies which will need careful monitoring. The costings are based on employed staff being recruited to deliver the plan, and the intention is to recruit on a permanent basis to attract the best candidates. At the end of the 18-month period the staff will then be transferred to any existing vacancies within the directorate to avoid any risk of over-recruitment. This is a sensible plan but carries clear risks:

- inability to recruit to these posts will lead to the need for more expensive agency workers
- at the end of the 18-month period the intention is that permanent staff will then be transferred to existing vacancies to avoid over-recruitment, but those vacancies may not be there

The service will be expected to mitigate additional costs but, in this climate, it is not easy to see how this can be achieved, noting too the £8.2 million revenue overspend in 2023/24 which does not appear to have attracted criticism from the council more broadly. Notably, pressures arising from placement costs are recognised (and are a major national issue), so the continued focus on robust edge of care services, permanency and reunification to families and connected carers will be important. However, the openness to invest to save proposals, particularly for accommodation for children in care and care leavers (picking up a key Ofsted criticism), is also noted.

In addition, there are risks of over-optimism relating to the availability of the £2 million, which is to be met through existing service budgets, utilising existing growth that had been built into this year's MTFS, and dependent on cross-council savings being delivered to plan.

The commitment expressed for finance and the service to work together in monitoring and managing expenditure and addressing current and pressures in an appropriately supportive and challenging way seems evident and is viewed as helpful by children's services managers. For example, despite the financial position, managers reported no pressure to identify "short term fix" savings targets which would compromise planning and delivery either of the improvement agenda or the strategic direction towards early help and prevention which should deliver better and cheaper services in the medium to longer term.

Governance arrangements also appear strong: each section of the plan has a dedicated responsible senior leader responsible for achieving and reporting on impact. Arrangements for tracking progress appear a sensible combination of using existing forums (e.g. the Children and Families Committee) and the newly created independently chaired Improvement and Impact Board (IIB) whose role is to provide formal monthly scrutiny of progress and impact. The engagement of the Safeguarding Children's Partnership and the full council leadership team as members of the IIB is further indication of robust governance and accountability arrangements, along with reporting into the external corporate assurance panel which monitors the council's overall transformation plans.

Through our discussions with the departed Executive Director, senior managers and analysis of available supporting documentation we are confident of the political, chief executive and cross-directorate's wish to deliver what appears to be a comprehensive, prioritised and robust Improvement Plan in response to the "inadequate" Ofsted rating. Reasons to be positive include:

- Clear location of the plan within the wider council Transformation Plan and demonstration political and corporate will to fund delivery despite the financial pressures.
- Senior children's services managers who presented as resilient, pragmatic, and not deterred by the council's financial position.
- Monitoring and governance arrangements allocating clear responsibilities and progress tracking through existing and dedicated arrangements.

However, whatever the level of directorate and cross-council commitment there are serious risks of over-optimism to which attention must be drawn in Cheshire East's financial climate:

- Pressure on the service budget is likely to continue creating the risk of further overspends (£8.2 million in 2023/24) further reducing headroom within children's services as across the council.
- Doubt based on wider experience as to the adequacy of £2 million as an additional sum to fund delivery of the Plan.
- Even were this to be sufficient, concern as to whether the monies will be available given their dependence on savings elsewhere.
- The absence of an executive director to lead delivery following the recent resignation, creating instability, although the council has moved quickly to appoint an interim and then permanent successor.
- In addition, the financial pressures to fund ongoing services alongside the improvement plan means investment in early help and intervention is all the more

difficult. The consequent risk as noted earlier is that demand for more intensive and expensive services increases over time with poor experiences and outcomes for the most vulnerable children and families.

It is finally important to add that the council appears aware of these risks and fragilities but in this environment solutions are not readily identifiable.

Adults Social Care

The service is developing a comprehensive approach and the right one, and whilst it is seeking short term savings in addition to those which will emerge from strategic shifts, the larger savings will take time to deliver, whilst it remains under continuing financial pressure.

The ASC service was significantly overspent last year with a much worsening position towards the end of the year, and with unsuccessful mitigations. The service has made changes to its governance, strategies and practices in response, including identifying where it needs to modernise the service. These have been linked into corporate initiatives and plans.

The issues facing the service include increasing demand and complexity of need, exacerbated by problems in the health economy, and increasing costs in the provider market, and high agency costs. These are largely national issues with some local variation, which have been developing since Covid. These issues are well understood and the response is comprehensive and appropriate.

The service is open to learning about other approaches and has acted on advice from commissioned analysis.

There are some opportunities to obtain better value in the market and to achieve service shifts for example in relation to learning disability services, but these will take time to deliver. The financial pressures in the service remain acute.

The budget overspend last year was £11.8 million, up by £5 million in the last quarter. The service was unable to deliver on planned mitigations around reducing staffing, price negotiations with providers and bringing forward savings from 2024/25. There were also some unexpected costs arising from late debt write off and uncollected income, which were affected by the financial systems. Those systems are improving. This year’s budget savings programme is proving extremely challenging. These costs reflect the wider context within which the service is currently operating and the challenges that it faces.

The local health economy is severely challenged financially, and the expectations around urgent and emergency care have continued although the grant has not. The service describes a good place-based partnership but a more centralised approach from the local health service, in contrast to the initial expectation in the Integrated Care System that there would be a 70% focus on local plans. The number of acute beds has reduced by 50 in the past year, the service is experiencing over-prescription from hospital settings, and the turnover through beds is speeding up, compounding the pressure on social care.

The service was able to describe the steps it is taking strategically and operationally to address these pressures, including approaches to continuing health care, reablement, and regional work with other local authorities, but this will remain a significant source of pressure. This is a national issue, but potentially more acute in Cheshire East and the north-west region than in some other places.

There has been care market capacity and the service had previously allowed healthy competition to keep prices in check and adopted a piecemeal approach to working with providers to develop new forms of provision. There has also been more of a procurement driven approach rather than a strategic approach to commission services. The increasing volume and complexity of client need, the throughput and requirements of hospital discharge and the Fair Cost of Care exercise, have produced a more saturated market in some areas and serious affordability issue for the service.

The service is becoming more interventionist and seeking to work in partnership with local providers to help shape the market. There are not trade associations specifically representing the care providers in Cheshire East however the service has a number of initiatives with providers and is considering developing its own provision.

The service is outward looking and has commissioned analysis from Impower, Care Cubed, and the LGA in respect of use of resources, to benchmark and focus on opportunities. It has also taken best practice from other authorities, worked with experts such as Housing LIN, and conducted its own analysis.

Broadly the service spends what would be expected on adult care service, but with variations. It spends more on learning disability services, with fewer but high-cost residential placements. It spends less on older people services but would seek to reduce residential placements.

There is some extra care housing, but more is needed. There are legacy high cost placements for people with learning disabilities and there are supporting living arrangements that require modernisation and some traditional social work practises. There are issues with financial and HR systems that impact the service. Overall, the direction now is for care at home at a reasonable cost.

The service estimates that with new approaches and modern practice focussed on strength-based work it could reduce spend by £10 million against the £51 million learning disability care home and supported living budget, and a similar figure in older peoples' services, although this would require a comprehensive change in strategy, commissioning and practice and remains to be tested against current pressures.

The service has many initiatives in place and is developing new strategies in line with these aims. It is working with staff on culture change to modernise services and practice.

For 2024/25 the service has put savings mainly under the headings of fees and charges and client contributions; and "Prevent, Reduce, Delay" for adults, and for older people, within which categories sit many of the initiatives referred to above. Against the background of pressures and full year effect from the 2023/24 overspend, it is having mixed success at present. There is sound and detailed documentation in relation to the savings which gives assurance about management grip, and there is governance in the service including panels in relation to spend and preventative approaches which is encouraging culture change and helping to manage demand. All previous projects have been reviewed and prioritised to increase management grip and save capacity. Savings approaches are in line with corporate priorities and the service is in discussion about possible capacity support from the corporate £3 million Cheshire East Transformation Fund.

The service has taken action in relation to the cost pressures which have built over the past few years, most of which are national issues but with some specific local variation. It is developing a comprehensive approach and the right one, and whilst it is seeking short term savings in addition to those which will emerge from strategic shifts, the larger savings will take time to deliver, whilst it remains under continuing financial pressure.

Although social care growth pressures continue to present a material risk to the financial sustainability of the council, our reviews did not identify any major weaknesses in the approaches being adopted and no additional recommendations have been made. It will however be important for Adult Social Care and Children's Services to identify the cause of the continuing pressures on their budgets and implement the mitigations they have already identified to bring their spending under control.

Annex

A1 Risk Assessment – Method

Impact

Likelihood	Critical:3	Moderate:2	Marginal:1
Probable:3	High - 9	High - 6	Medium - 3
Occasional:2	High - 6	Medium - 4	Low - 2
Improbable:1	Medium - 3	Low - 2	Low - 1

Likelihood:

- Improbable – possible, but unlikely to happen.
- Occasional – might happen, might not happen, in the order of 50/50.
- Probable – most likely will happen.

Impact:

- Marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the council, some awareness / action may be required by members.
- Moderate – financial losses / costs up to £100,000, operating impacts hitting services for some of the community, a significant issue for members to deal with
- Critical – major financial losses / costs in excess of £100,000, subsequent intervention by MHCLG or other 3rd parties, reaches national press interest, major political embarrassment for members.

A2 Documents reviewed

Corporate Plan 2024

Statement of Accounts 2022-23

Constitution

Organigram of senior managers and Directorates

Code of Corporate Governance

Annual Governance Statement 2022/23

Management Assurance Statements

Anti-Fraud and Corruption Strategy and Policy

Whistleblowing Policy

Medium Term Financial Strategy 24/25 to 27/28

2023/24 outturn reports

Capital Strategy

Asset Management Plan 2022-25

Corporate Records Management Policy

Data Protection Policy

ICT communications and operations policy

Information Assurance Policy

Procurement Strategy 2021-24

Procurement Performance Scorecard 2023/24

Business case protocols

Financial Regulations

Internal Control Procedures

Directorate Schemes of Financial Delegation

Financial Services service plan

Asset Register 2023/24

2023/24 third quarter financial review monitoring papers and reports

Corporate Plan Performance 2023/24 quarter four report

Finance Performance Indicators

External audit reports

Audit and Risk Committee Action Plan

CIPFA review of the Audit and Governance Committee

Draft Internal Audit Plan 2024/25

Internal Audit Plan 2023/24

Internal Audit Reports

Risk Management Policy and Reporting regime

Risk Management Framework

Strategic Risk Register

Financial Competency Framework

Financial Management Training Strategy

2023 Pulse staff survey

Job descriptions

Financial memoranda

Consultation and Engagement Toolkit

Minutes and agenda paper packs for meetings of the council, the Finance Sub-Committee, the Corporate Policy Committee, the Scrutiny Committee, and the Audit and Governance Committee

The Peer Review Report and CEC response plan

The Children's Service Improvement Plan

The Transformation plan

Presentations made to CEBERT

CIPFA rapid finance review

The productivity plan

A3 Interviews Conducted

Interim Director of Finance and Customer Services S151 Officer

Chief Executive

Interim Director of Policy and Change

Executive Director of Children's Services

Head of Transactional Shared Services

Chair of Scrutiny Committee

Director Of Governance and Compliance Services

Head Of Communications

Interim Director of Commissioning

Research and Consultation team Leader – Performance Manager

Interim Head of Highways

Deputy S151 Officer

Leader of the council Portfolio Holder for Resources/Finance

Head of Revenues/Revenues Manager

Care4CE Service Manager

Treasury Management – Accountant and Senior Accountant

Head of Integrated Commissioning, Adults, Heath and Integration Director of Education

Head of Audit and Risk

Head of Economic Development

Early Help & Prevention Head of Service

Children in Need Head of Service

Cared for Children and Care Leavers Head of Service

Safeguarding Head of Service

Children's Development Head of Service

Social Care Head of Service

Attendance and children out of school lead

Educational Psychologist lead

Early Start, Strong Start, Help & Integration

Head of Legal

Procurement Manager

Leader of the Opposition

Chair Audit and Governance Committee

Head of Capital/Commercial (Strategic Finance) Principal Accountant

Interim Director of Family Help and Children’s Social Care

Executive Director, Adults Health & Integration

Lead Transformation consultant at Inner Circle

Service Development and Accounting Finance Manager

Strategic Finance and Accounting Finance Manager

Adults and Children’s Service Manager

Place and Corporate Service Manager

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