

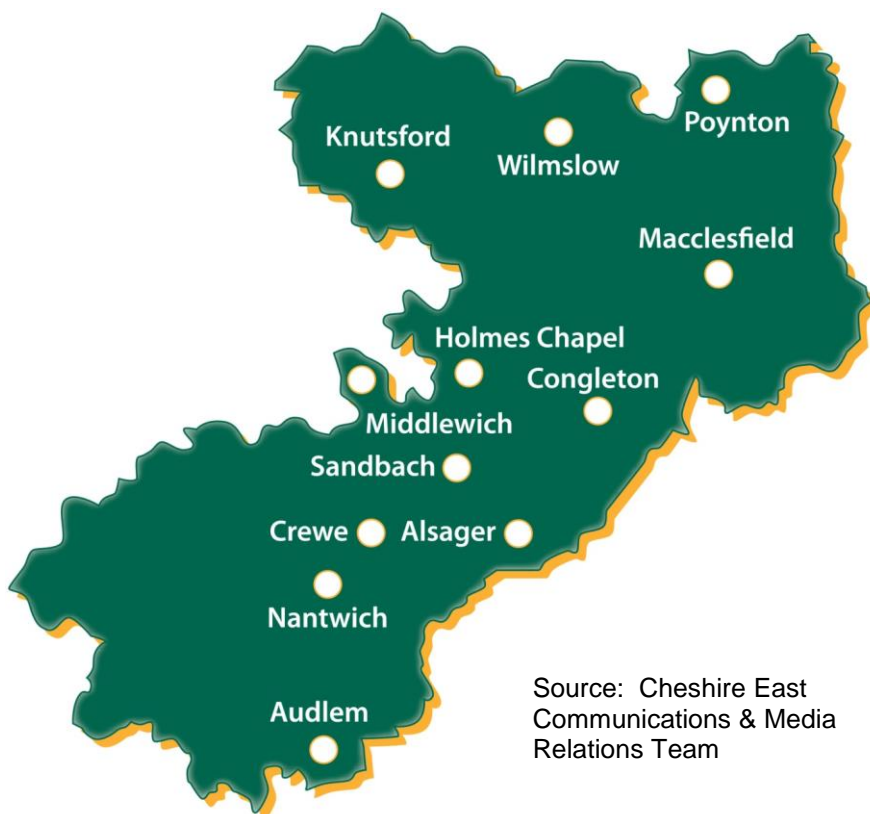
## Appendix 1- Narrative Report

### An introduction to Cheshire East, the place

Cheshire East Council is an all-purpose 'unitary' local authority providing key public services to over 370,000 local residents in Northwest England. The borders include the towns of Macclesfield, Congleton and Crewe. The area lies within the historic County of Cheshire between the urban areas of Manchester to the North and Stoke-on-Trent to the South.

Cheshire East covers a largely rural area of approximately 117,000 hectares, this makes the Council one of the largest local authorities in England; maintaining the area as a green and sustainable place is one of the Council's planned outcomes.

The Council operates a commissioning model which matches the best fit provider in terms of quality and cost to meet the needs of residents. The Group now consists of the Council and its wholly owned companies and associate. The accounts for all these organisations, where significant, are combined with the Council's accounts to produce the Cheshire East Group accounts.



Source: Cheshire East Communications & Media Relations Team

The Group is focused on achieving outcomes, in line with the Corporate Plan 2016 to 2020, by providing quality local services, within a commercially focused ethos that maximises value for money for local taxpayers.

Cheshire East Council is a multifunctional and complex organisation; its policies are developed by elected Councillors and implemented by professional officers.

The vast majority of services delivered by the Group focus on local residents and businesses. During 2016/17 one company, partially owned by the Council, – Cheshire and Warrington Local Enterprise Partnership Ltd - also provided services to residents of Cheshire West and Chester and Warrington and are jointly owned with those Councils.

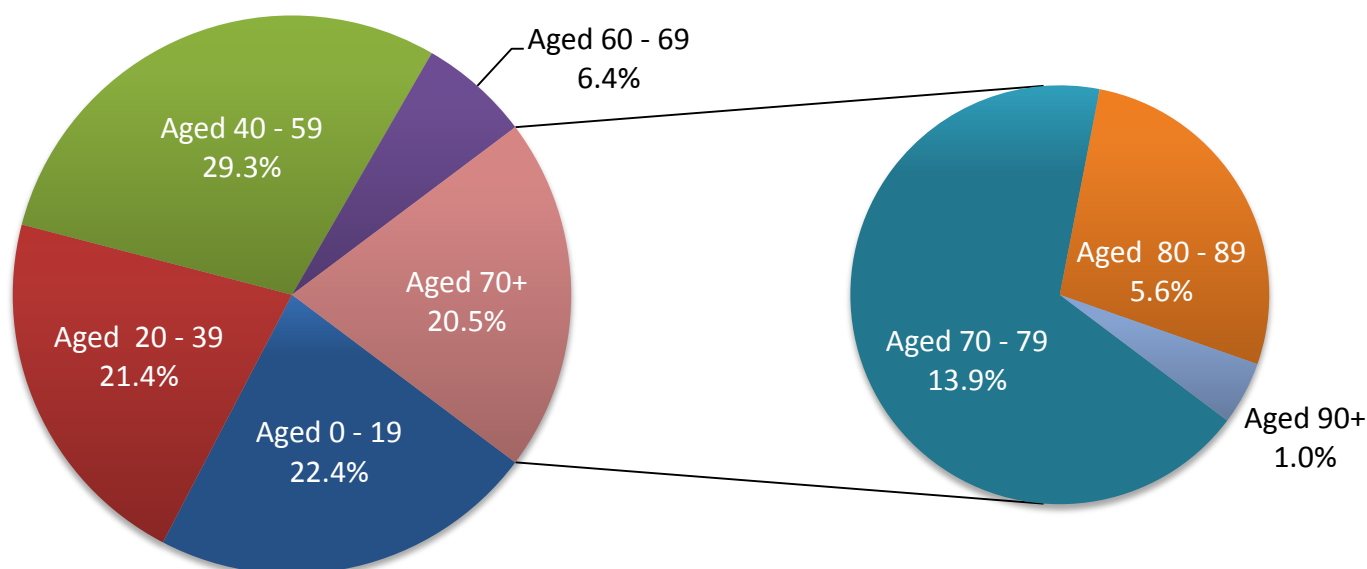
The most significant services provided by the Group are:

- Social Care
- Education
- Planning
- Highways
- Waste Management
- Economic Regeneration

## Cheshire East, the people

**Population:** Office for National Statistics Mid-Year Estimates for 2012 shows an estimated population of 372,100. Cheshire East has a relatively older population than average, with 26.9% of the population aged 60+. This figure is much higher than the national average of 22.7% and is reflected in the Council's targeted outcome to support people to live well and for longer.

### Cheshire East Population Structure – Analysis by Age Group



Source:  
Office for National Statistics Mid-Year Estimates for 2012

### Economy: Economic data tells us:

- In March 2017, Cheshire East's claimant count (the number of people claiming out-of-work benefits) was 2,620, which is 0.8% of the resident population aged 16 and above; this is below the claimant rates for Cheshire West and Chester (1.1%), the North West (1.9%) and Great Britain (1.5%). 2.1% of the Borough's 18-24 year-olds are claiming out-of-work benefits; this claimant rate for 18-24 year-olds is higher than for other age groups, but is lower than in Cheshire West and Chester (2.4%), the North West (3.6%) and Great Britain (2.9%).
- In 2016, 6,700 of Cheshire East residents were unemployed (not in work, but available for and actively looking for work). This equates to 3.6% of the economically active population aged 16 and above. This rate is lower than those for Cheshire West and Chester (4.0%), the North West (5.2%) and Great Britain (4.8%).
- Cheshire East's median household income was estimated to be £33,000, 15.8% above the UK average (£28,500). At individual settlement level, income is below the UK average in only three of the Borough's 24 main towns and settlements: Crewe, Shavington and Handforth. At the other end of the spectrum, median household income exceeds £50,000 in two of the 24 towns and settlements; Prestbury and Alderley Edge which are both in the north of the Borough.

Having a strong local economy is key to the Council's ambition to build economic growth; as is developing life skills to help people thrive and reach their potential.

Government changes to business rate retention and council tax support schemes directly affect the financial health of the Group, and local economic results show how increased commercial development and reduced unemployment help put the Group in a strong position.

### The Political Structure of the Council

As a politically led organisation Cheshire East has 82 elected members selected from 52 wards. The electorate in Cheshire East is one of the largest in the UK with almost 300,000 registered voters. Council Elections take place every four years.

Elections last took place in May 2015. The Council is led by a Conservative overall majority.

	2016/17
Conservative	51
Labour	16
Liberal Democrat	2
Independent or Other	13

The Council operates a Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The requirements of the Act are such that the Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of portfolios and the delegation of executive functions.

Councillor Rachel Bailey is the Leader of the Council and heads a Cabinet which consists of nine portfolio holders. The Council also has an annually appointed Mayor for civic functions; the Mayor for the period up to 31<sup>st</sup> March 2017 was Councillor Olivia Hunter.

### The Cheshire East Council Group Structure

Cheshire East Borough Council is by far the largest service provider of the Group. It is important to recognise that the Council is a Local Authority whereas the other members of the Group are limited companies which are either wholly or partially owned by the Council. The Council must produce a balanced annual budget and aims to spend within that total. The private companies on the other hand are able to focus on providing a profit. Residents of Cheshire East benefit from this approach as any profit shares retained by the subsidiaries are also retained by the Group and can increase overall value for money.

Cheshire East Residents First Ltd (CERF) is the largest shareholder for Ansa Environmental Services Limited, Transport Service Solutions Limited, Engine of the North Limited, Orbitas Bereavement Services Limited, Civicance Limited and The Skills and Growth Company. CERF owns an 80% shareholding in these companies with the remaining 20% being retained by Cheshire East Council. CERF is wholly owned by Cheshire East Council and acts as a holding company for the council owned companies.

## The Group Management Structure (2016/17)

The 2016/17 management structure is based on a commissioning model. The Council owns the companies within the Group either wholly or in part, but each company is a single entity with its own governance arrangements which then reports in to the Council's governance arrangements.

Supporting the work of elected Members is the organisational structure of the Council headed by the Executive Leadership Team (ELT). This is made up of the Council's most senior officers and ensures that the key Statutory Officers are represented at the most senior level of the Council.

Company	Role	Name
<b>Cheshire East Council</b> (Gross Revenue Spend £583m; Capital Spend £79m)	<b>Chief Executive</b> (Head of Paid Service)	<b>Mike Suarez</b>
	<b>Executive Directors:</b>	
	• <b>People</b> (Deputy Chief Executive)	<b>Kathryn O'Dwyer</b>
	• <b>Place</b>	<b>Frank Jordan</b> (from September 2016)
	• <b>Chief Operating Officer</b>	<b>Peter Bates</b>
	• <b>Director of Legal Services and Monitoring Officer</b>	<b>Bill Norman</b>
<b>Wholly Owned Subsidiaries: 2016/17 position</b>		
<b>Cheshire East Residents First (CERF)</b>	<b>Chairman</b>	<b>Cllr David Brown</b>
<b>Ansa Environment Services Limited</b> (Turnover £32.5m)	<b>Chairman</b> <b>Managing Director</b>	<b>Cllr John Hammond</b> <b>Kevin Melling</b>
<b>Transport Service Solutions Limited</b> (Turnover £17.1m)	<b>Chairman</b> <b>Managing Director</b>	<b>Cllr Gail Wait</b> <b>Kevin Melling</b>
<b>Engine of the North Limited</b> (Turnover £1.4m)	<b>Chairman</b> <b>Managing Director</b>	<b>Cllr Jamie Macrae</b> <b>Mark Thompson</b>
<b>Orbitas Bereavement Services Limited</b> (Turnover £1.7m)	<b>Chairman</b> <b>Managing Director</b>	<b>Cllr David Marren</b> <b>Kevin Melling</b>
<b>Civacance Limited</b> (Turnover £1.7)	<b>Chairman</b> <b>Managing Director</b>	<b>Cllr Andrew Kolker</b> <b>Ian Bunn</b>
<b>The Skills and Growth Company</b> (Turnover £2.3m)	<b>Chairman</b> <b>Managing Director</b>	<b>Cllr Paul Bates</b> <b>Julian Colbey</b>
<b>Tatton Park Enterprise Limited<sup>1</sup></b> (Turnover £1.1m)	<b>Chair</b> <b>Directors</b>	<b>Cllr Jamie Macrae</b> <b>Cllr George Walton</b> <b>Brendan Flanagan</b>
<b>Associate:</b>		
<b>Cheshire &amp; Warrington Local Enterprise Partnership Limited<sup>1</sup></b>	<b>Chair</b> <b>Chief Executive</b>	<b>Christine Gaskell, MBE, DL</b> <b>Philip Cox</b>

Note 1: Accounts for TPE & C&WLEP are not consolidated in 2016/17 on the grounds of materiality.

Since 31<sup>st</sup> March 2017 the management arrangements for the Council have temporarily changed. With effect from 25<sup>th</sup> May 2017 the Executive Leadership Team consists of Kath O'Dwyer (Acting CEO), Frank Jordan (ED for Place and acting Deputy CEO), Peter Bates (COO), Mark Palethorpe (Acting ED for People) and Jan Willis (Director of Finance & Procurement and CFO). Dan Dickinson is also acting Director of Legal Services and Monitoring Officer.

The subsidiary companies are led by management boards. These consist of a Managing Director, a Chairman and Directors. The Chairman and two directors are appointed from the elected representatives of the Council. The subsidiary Companies report regularly to the CERF board which holds public meetings at least twice a year.

For a more complete list of appointments and further details on each organisation within the Cheshire East Group please refer to the following websites:

Cheshire East Borough Council	<a href="http://www.cheshireeast.gov.uk">www.cheshireeast.gov.uk</a>
Ansa Environmental Services Ltd	<a href="http://www.ansa.co.uk">www.ansa.co.uk</a>
Engine of the North Ltd	<a href="http://www.EngineoftheNorth.co.uk">www.Engine of the North.co.uk</a>
Civance Ltd	<a href="http://www.civance.co.uk">www.civance.co.uk</a>
The Skills and Growth Company	<a href="http://www.skillsandgrowth.co.uk">www.skillsandgrowth.co.uk</a>
Cheshire & Warrington Enterprise Partnership Ltd	<a href="http://Cheshire&amp;WarringtonLEP">Cheshire &amp; Warrington LEP</a>

Accounts for Tatton Park Enterprise Ltd will be published on the Tatton Park website: [www.tattonpark.org.uk](http://www.tattonpark.org.uk)

Everybody Sport and Leisure Trust (ESAR) was established in 2014/15 through a formation of a trust that took over the leisure service functions previously provided by the Council. ESAR, with its trust status, is not a subsidiary of the Council and has been excluded from the group. For more information please refer to the following website: [www.everybody.org.uk/](http://www.everybody.org.uk/)

Accounts for each of the private companies within the Cheshire East Group will also be provided to Companies House as required.

(website: <https://www.gov.uk/government/organisations/companies-house>)

The Group has appropriate governance and control arrangements in place to support the proper management of resources. Each year the Council provides an Annual Governance Statement that highlights how effective the processes and controls are during the year. The Audit and Governance Committee receive the Statement and consider any actions put in place in response to any issues being highlighted. It is important to read this Statement, which can be found on the Council's [website](#) alongside the Group Statement of Accounts to appreciate the proportionate level of control being exercised over the resources of the Group.

## Group Employees

The Group employs a total of 4,214 people (excluding school based employees).

	No.*	%
Cheshire East Council	3,666	87.0
Ansa	370	8.8
TSS	77	1.8
Civicanace	45	1.1
Orbitas	35	0.8
Skills & Growth	21	0.5
<b>Total</b>	<b>4,214</b>	<b>100.0</b>

\*No. represents an average workforce for the year

Engine of the North does not directly employ staff; its human resources including management are provided by Cheshire East Borough Council and by commissioning the services of development surveyors and other professionals from the external market.

## The Corporate Plan

The Corporate Plan 2016-2020 sets out five clear residents focused outcomes, underpinned by a sixth outcome based on delivering a responsible and efficient way of working.





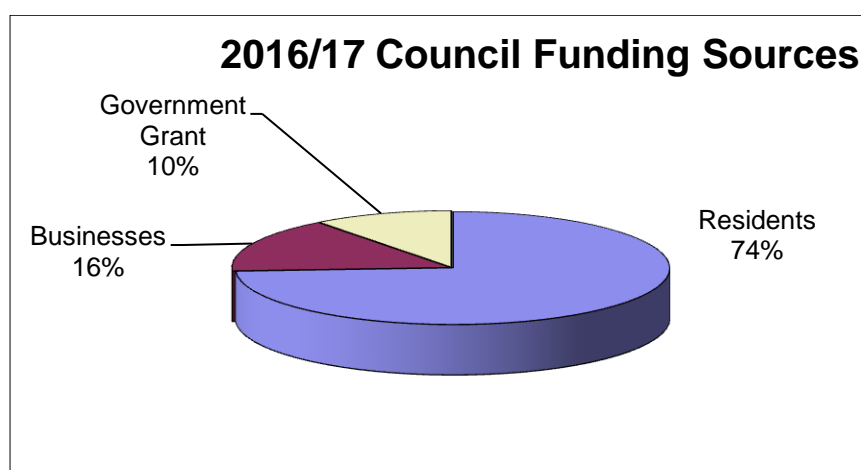
The corporate plan was approved by Council, in February 2016, alongside the 2016/17 Budget. Measurable achievements within each outcome are reported to members and published on a quarterly basis. Quarterly reports were provided to Cabinet and can be found on the Council's website: [www.cheshireeast.gov.uk](http://www.cheshireeast.gov.uk)

### Financial Overview

Central Government's continuing commitment to reduce the national debt has contributed to local government going through a period of sustained financial challenge. The continuing response from the Cheshire East Group is based on innovation and creativity. The Group also continues to be relentless in its pursuit of greater efficiency and productivity to enable it to deliver a high level of sustainable, quality services for a lower overall cost.

Compared to most other English authorities, Cheshire East is less reliant on government revenue grant as local businesses and residents provide a high proportion of the overall funding.

### Residents and businesses funded 90% of the Group's Net Budget of £266.7m\*



The Council's strong tax base – and thereby greater independence from government - provides financial stability and offers some 'local protection' from the impact of national economic fluctuations.

The development of the Group structure will, over time, enhance the opportunities for even greater resilience and independence.

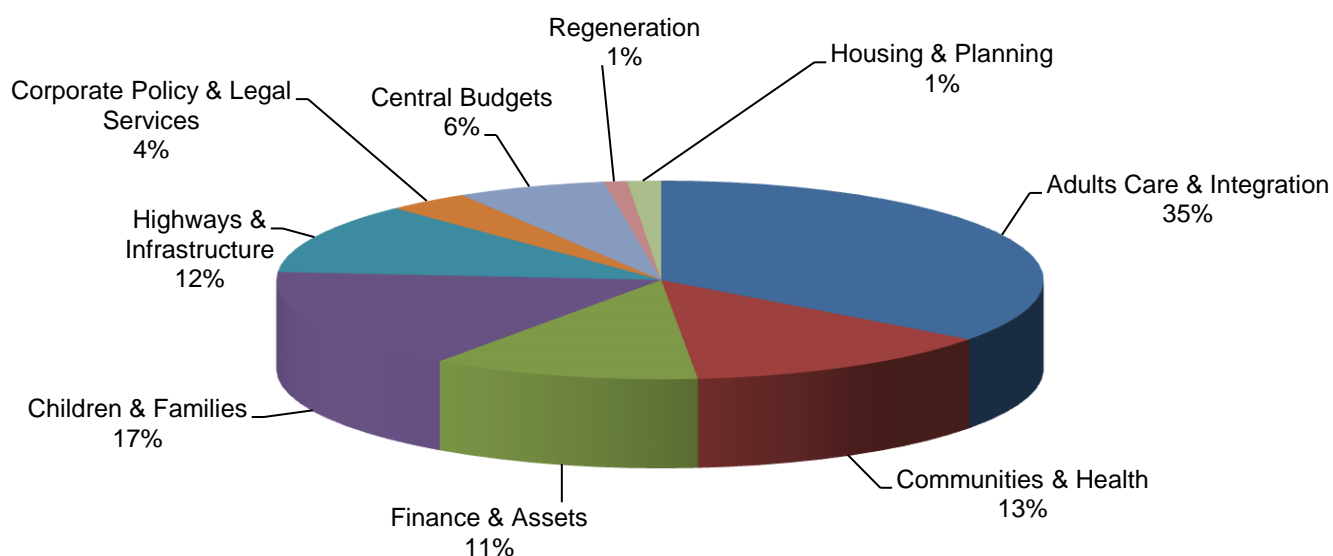
The importance of the local economy both to the Council and the country as a whole cannot be underestimated though, with more than 18,000 businesses located within the boundaries of Cheshire East.

\*Note: the Net Budget reflects the amount of business rates, general government grant and council tax that the Council spends each year. This is gross expenditure less capital expenditure and direct funding to services such as Dedicated Schools Grant, Housing Benefits and charges to service users – for full details see the Councils [Medium Term Strategy - Feb 2016](#)

## Most of the Council's £266.7m Net Budget is allocated to Social Care

The Council invests in a wide range of service providers. Most of the money is spent on achieving social care and community outcomes. The difficult decisions to prioritise and allocate resources to commissioned services mainly rests with elected Members.

The significant majority of education funding however, is passed directly to maintained schools and payment of welfare benefits, although administered by the Council, are claimed back from the government. At present public health expenditure is also ring-fenced for spending on public health services.



Note: the split of services (above) represents the Portfolio Holder responsibilities in 2016/17

## Revenue Outturn position

The Group's strong financial position as at 31<sup>st</sup> March 2017 reflects its innovative delivery arrangements and effective stewardship of public money. Controlled spending during the year provided the flexibility to create earmarked reserves and fund additional capital investment.

The overall financial outturn includes:

- an overspend of £1.7m by commissioning and enabling services of Cheshire East Council. This matches the forecasts published at the Third Quarter, which informed the budget setting for 2017/18; and
- a net profit of £0.171m from the wholly owned subsidiary companies of the Cheshire East Group. This shows a consolidated strong performance from the Council's wholly owned companies, with most companies recording profits and increasing the strength of their respective balance sheets.



Overall revenue reserves of the Group have decreased from £74.7m to £64.6m. This is made up primarily from:

- General reserves for Cheshire East Council of £10.3m, which were decreased in 2016/17 in line with budgeted estimates and the reserves strategy.
- Earmarked reserves for Cheshire East Council of £48.9m.
- Schools reserves and balances of £5.1m.

The overall value of reserves is at a level that is sufficient to continue to protect the Group against its assessed financial risks and also to provide opportunities for future investment. This strengthening of overall reserves, during these challenging times, is a positive indicator of the Groups strong financial control aligned to its strategic intentions.

Each of the single entities of the Group will be separately audited by Grant Thornton LLP Ltd. Any findings will be reported to the relevant board or the Audit and Governance committee and reported on the website of each part of the Group.

Summary details of the relative management accounts for each entity within the Group are as follows:

The Council produces an Outturn Report for the year that reflects the Council's financial and non-financial performance. The report which includes the narrative to the Statement of Accounts, alongside additional information, was reported to Cabinet on 13<sup>th</sup> June 2017 and can be found on the Council's website: [www.cheshireeast.gov.uk](http://www.cheshireeast.gov.uk)



**Cheshire East Council reported a final outturn position of £249.6m.**

2016/17 FINAL OUTTURN (Gross Revenue Budget £583.4m)	Revised Budget (net) £m	Final Outturn Position £m	Over / (Under) spend £m	Change from Third Quarter £m
<b>Service Directorates</b>				
Adult Social Care and Health	94.0	99.3	5.3	2.2
Children's Services	45.2	45.6	0.4	(1.2)
Community and Partnerships	4.5	4.2	(0.3)	(0.2)
<b>People</b>	<b>143.7</b>	<b>149.1</b>	<b>5.4</b>	<b>0.8</b>
Growth and Regeneration	4.4	4.5	0.1	(0.1)
Infrastructure and Highways (incl. Car Parking)	8.1	7.3	(0.8)	(0.6)
Planning and Sustainable Development	(1.2)	(1.1)	0.1	0.1
Rural and Green Infrastructure	2.8	3.0	0.2	0.2
Place Commissioning	18.2	20.2	2.0	1.0
<b>Place</b>	<b>32.3</b>	<b>33.9</b>	<b>1.6</b>	<b>0.6</b>
Corporate and Central Services	45.3	41.2	(4.1)	(1.4)
Corporate Commissioning	29.5	30.2	0.7	0.3
<b>Corporate</b>	<b>74.8</b>	<b>71.4</b>	<b>(3.4)</b>	<b>(1.1)</b>
<b>Total Services Net Budget</b>	<b>250.8</b>	<b>254.4</b>	<b>3.6</b>	<b>0.3</b>
<b>Central Budgets</b>				
Specific Grants	(20.6)	(20.7)	(0.1)	0.0
Capital Financing	14.0	12.8	(1.2)	0.0
Transfer to Earmarked Reserves	2.8	2.8	0.0	0.0
Transfer from Earmarked Reserves (to balances)	0.0	(1.1)	(1.1)	(1.1)
Corporate Contributions / Central Budgets	0.9	1.4	0.5	0.8
<b>Total Central Budgets</b>	<b>(2.9)</b>	<b>(4.8)</b>	<b>(1.9)</b>	<b>(0.3)</b>
<b>TOTAL NET BUDGET</b>	<b>247.9</b>	<b>249.6</b>	<b>1.7</b>	<b>0.0</b>

The wholly owned subsidiaries reported an overall profit.

Company	Turnover £000	Costs £000	Operating Profit/(Loss) £000	Interest Payable & Taxation £000	Net Profit /(Loss) £000	Retained Share Accruals* £000	Shareholder Profit/ (Loss) £000
ANSA	32,496	32,370	126	5	121	(25)	96
TSS	17,143	17,248	(105)	(1)	(104)	15	(89)
SAGC	2,258	2,175	83	0	83	(63)	20
Orbitas	1,718	1,726	(8)	6	(14)	2	(12)
Civican	1,665	1,588	77	1	76	(51)	25
EOTN	1,397	1,388	9	0	9	0	9
<b>Total</b>	<b>56,677</b>	<b>56,495</b>	<b>182</b>	<b>11</b>	<b>171</b>	<b>(122)</b>	<b>49</b>

\*Note: The Retained Share Accruals are in accordance with contractual obligations and the funds are allocated to the Council's Trading Earmarked Reserve.

## Performance Overview

The Council's outcomes, as described in the Corporate Plan, are achieved through a combination of commissioners and providers both meeting and exceeding performance ambition. Some of the key issues that have affected the level of service expenditure and performance against outcomes during the year are summarised below.

## People

Notable successes this year include:



We undertook a major project to improve community-based early intervention and prevention activities to improve public health outcomes. £400,000 was allocated to 103 different organisations over 12 separate events which saw over 800 local residents vote for local projects.



Delivering Differently  
in Macclesfield

The 'Delivering Differently in Macclesfield' project resulted in the creation of 7 new resident-led initiatives. The Council is one of 23 authorities that have piloted a scheme exploring what works best for local communities and how to maximise facilities to bring groups together. This work has been estimated to have prevented the Council from having to spend over £238,000, not to mention the beneficial impact on people's lives if they can access local services when they need them without the need for hospital or more serious interventions.



As at quarter 4, 89.7% of all schools in Cheshire East were good or outstanding.



In 2016, 61.9% of pupils achieved 5+ A\*-C grades including English and mathematics GCSE, which is above the national average, and Cheshire East is ranked 3rd when compared to statistical neighbours.

The People Directorate net expenditure outturn of £149.1m is £5.4m higher than budget.

The most significant variance relates to Adult Social Care and Health with an overspend against budget of £5.3m, this includes an overspend on External Care placements. Performance data shows that over the last two years the service has seen a growth of around 500 people, of these over 100 are in Residential and Nursing placements (at a cost of £601 per week) and over 100 are in receipt of long term domiciliary care (at a cost of £332 per work). This alone has created a pressure of around £5.6m on the Care Cost budget, in addition average package costs are increasing, in excess of the fee increases. Early work suggests that 40% of the increase in care costs is attributable to the fees increase and 60% relates to additional volumes of client numbers alongside increasing complexity of clients needs.

In addition to the variance on external care costs there are a number of variances across the other areas of the Adults Department, such as staffing budgets, Commissioning costs and the internal provider of care, Care4CE. The majority of these variances are underspends which, when combined together with the External Care Costs, result in the overall position of a £5.3m overspend.

## Place Directorate

Notable successes this year include:



The Regeneration team successfully progressed town centre revitalisation projects in both Crewe and Macclesfield.

The £38m Poynton Relief Road scheme received a resolution to grant planning permission in January 2017.

The £91m Congleton Link Road scheme now has planning permission. Compulsory Purchase Orders have now been served and a public inquiry was scheduled to acquire the land for the Link Road.

Works on the A500 Junction 16 Pinch Point Scheme were completed to alleviate road congestion through the addition of a lane to the eastbound approach to Junction 16.

Pothole repairs for 2016/17 totalled 16,105. Despite a slight increase in the number of programmed repairs (compared to 15,410 in 2015/16), the total annual cost reduced for the year from £921,000 (in 2015/16) to £708,000.



The Connecting Cheshire project continued to reach more premises, with fibre broadband now available to 97% of Cheshire East premises, 93% of which can benefit from speeds greater than 24Mbps.

Planning application performance remained strong with improved turnaround of applications within time over the past 3 quarters of 2016/17



The Place Directorate net expenditure outturn of £33.9m is £1.6m higher than budget. The most significant variance in Place Commissioning relates to the contract with TSSL, increased costs arose due to the requirement to replace local bus services.

## Corporate Directorate

Notable successes this year include:



Works undertaken by the Facilities Management Team on energy management solutions have enabled the Council to deliver a 42% saving on CO2 emissions, against a target of 25% by 2016.

The Council reduced costs by £1.6m through the re-procurement of the Council's contracts.

The Assets Service dealt with over 1,590 property requests and enquiries throughout 2016/17, and has reduced the number of outstanding priority cases to less than 50 cases, whilst saving £200,000 per annum on operational costs. It disposed of 21 surplus Council assets during the year.

The Assets Service successfully completed 10 refurbishment, extension or demolition projects (to a value of £7.5m), whilst a further 6 projects (worth £17.3m) are in post-completion progressing through the healthcheck / defects phase.

The Corporate directorate net expenditure budget of £71.4m was underspent by £3.4m. Reasons for the underspends include a one-off change in accounting for Housing Benefits bad debts (£1.1m) and an increase in the level of subsidy recovered (£0.8m).

Savings in staffing costs were achieved in the Project Management Office; Business Solutions; Audit & Risk Management and Finance & Performance teams.

Additional underspends occurred in Procurement; Human Resources and on the Workforce Development training budget.

Notable Corporate Commissioning successes this year include:



The £15.1m Crewe Lifestyle Centre celebrated its first birthday, and continues to win a number of regional and national awards.

Cheshire East is engaged in the delivery of over 20 park improvement projects funded from S106 developer contributions. They are working with local members and local community groups to deliver schemes across the Borough.

The Council has launched its 'No Rubbish Excuses' campaign to help reduce the amount of waste illegally dumped on the Borough's streets in addition to targeting problem areas with public information and enforcement.

## **Changes in Pension Estimates**

Due to the scale of the pension assets (£1.2bn) and liabilities (£1.6bn) detailed in the Accounts, even small percentage changes in assumptions regarding their value can have a noticeable impact on the reported position.

In 2016/17 the net pension liability (deficit) reported in the Accounts has increased by £103m. This reflects a significant decrease in the net discount rate (much lower discount rate, net of slightly higher inflation). The effect is partially offset by much greater than expected asset returns.

Detailed actuarial valuations are carried out every three years and the formal valuations for English and Welsh LGPS Funds were concluded as at 31<sup>st</sup> March 2016. The balance sheet position and charge to Profit and Loss for 2017/18 are based on the 2016 formal valuation. This differs to the position as at 31<sup>st</sup> March 2016 which was based on the 2013 valuation. In effect, the accounting figures are “re-calibrated” every three years following each formal valuation.

## **Council Tax**

Cheshire East collects Council Tax on behalf of the Cheshire Police and Crime Commissioner, the Cheshire Fire Authority and Parish Councils in addition to its own requirement. The total budgeted collectable amount for 2016/17 was £218.9m. The carried forward surplus on the Council Tax Collection Fund at the end of 2016/17 is £1.6m.

The Council Tax in-year collection rate for 2016/17 is 98.3%, an improvement of 0.2% on the previous year.

## **Business Rates**

Cheshire East collects Business Rates for the whole area and the income is split 49% to Cheshire East, 50% to DCLG and 1% to the Cheshire Fire Authority. The total budgeted collectable amount for 2016/17 was £140.5m as per the NNDR1 return. The carried forward deficit on the Business Rates Collection Fund at the end of 2016/17 is £3.1m.

Cheshire East Council is in a pooling arrangement with the Greater Manchester (GM) Authorities (also includes Cheshire West and Chester for 2016/17) to maximise business rate retention locally and support the economic regeneration of Greater Manchester and Cheshire Councils. Pool members are entitled to retain the levy charge on growth that would normally be paid over to Central Government. Cheshire East retained 50% of this levy charge locally (£1.1m) before paying the remaining half over to the pool.

The Cheshire and GM Pool are also taking part in a pilot scheme where the pool is now able to retain locally the 50% of “additional growth” in business rates which in the usual Business Rates Retention Scheme would be paid directly to DCLG. Cheshire East are due to receive £2.7m for this growth and this will be set aside in the Collection Fund Management Reserve.

The Business Rates in-year collection rate for 2016/17 is 97.67% which is a decrease of 0.7% compared to the same period in 2015/16. This is largely due to the continuing use of avoidance strategies by businesses in order to mitigate their liability.



## Financial Overview - Capital Programme

Capital expenditure represents money spent by the Group on purchasing, upgrading and improving assets that will be of benefit to the community over many years.

Total capital expenditure in 2016/17 was £78.7m compared to the budget of £123.0m. A further £13.8m was spent on the Council's contribution to the South East Manchester Multi Modal Strategy, with matched grant funding from the Greater Manchester Combined Authority. The new relief road straddles Stockport MBC and Manchester City Council boundaries as well as Cheshire East: [www.semmms.info/](http://www.semmms.info/)

The forecast for planned spend is updated throughout the year and published in the Quarterly Reviews of Performance. During 2016/17 a number of major projects have either completed or got under way including the Waste Hub (£12.0m), Middlewich Eastern Bypass (£1.5m), Schools Improvement Programme (£4.6m), Connecting Cheshire Phase 2 (£2.8m) and the Highways Investment Programme (£5.3m).

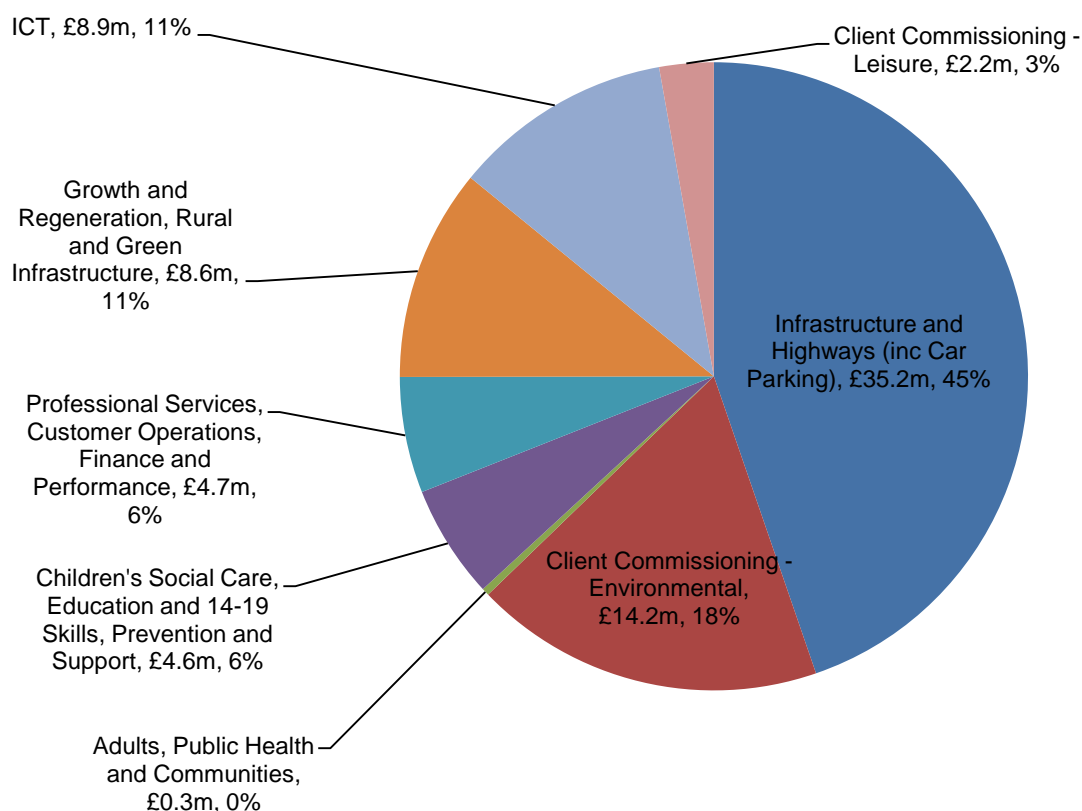
Since the start of 2016/17 slippage on the capital programme has been measured on schemes that are classed as committed as these schemes should have commenced prior to or during 2016/17 and have a detailed forecast expenditure plan in place.

There has been slippage of £25.5m against committed schemes, this includes Care Act Phase 2 (£7.0m), Waste Hub (£5.4m) and schemes within the Places directorate (totalling £10.6m) including the Gypsy Traveller Site, Housing Innovation Fund, Farms Strategy and Strategic Acquisitions.

The 2016/17 capital programme assumed a capital receipts target of £10m. The actual receipts in year amounted to £8.9m (of which £8.6m was used to fund the Capital Programme) from the sale of 21 surplus assets, including Pym's Lane Waste Depot (£4m), Farms Estate (4 lots totalling £1m) and former housing right to buy and VAT shelter receipts (£1.7m).

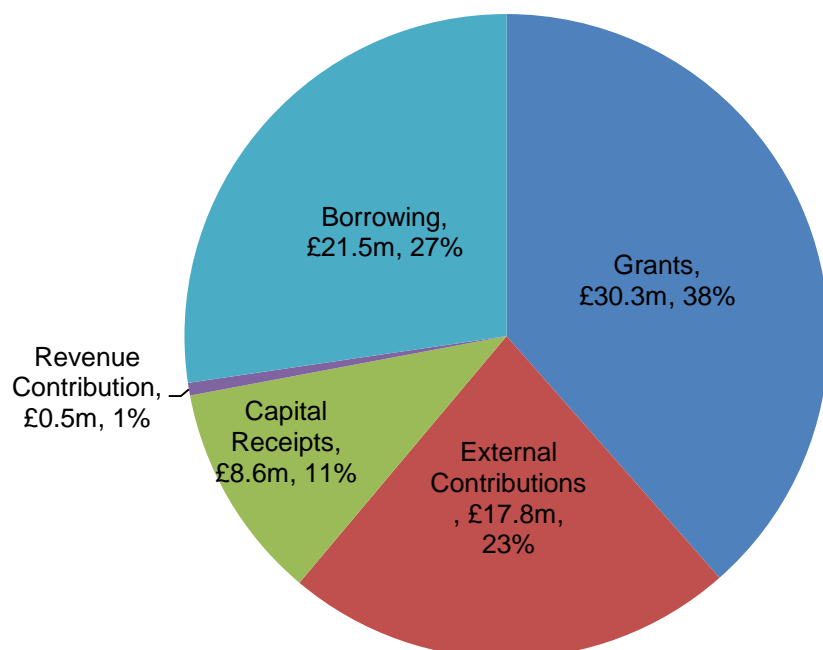


## Capital spending in 2016/17 was highest in Infrastructure and Highways



## 61% of Capital Spending was funded from external resources in 2016/17

To minimise the impact on financing costs and maximise the benefit of securing external funding sources some of the planned spending is deliberately re-profiled into later years. This also allows additional time to explore further funding opportunities such as grants and developer contributions which helps keep Council Tax bills down.



The Council has been very successful at attracting grant funding and external contributions for capital improvements. This minimises the impact of reducing the funding available for other services such as social care.

Note: During 2016/17 the Council has been able to 'internally' borrow from cash balances and has not had to take out any new long term external loans, with the exception of one interest free loan amounting to £1.1m from Salix, specifically for energy efficient street lighting projects.

## Protecting Against Risks

The Council has a risk management framework with hierarchical risk registers forming part of the process which operate at strategic, operational and project levels. Emerging significant risks are escalated to senior members and/or officers as appropriate in line with the potential likelihood and impact of the risk upon objectives. Formal reports with regard to the risk management process are made throughout the year to senior officers and members.

During the year the corporate risk register has been subject to a review and refresh to ensure that interdependencies between the corporate risks are understood. Operational risk registers have also been developed and included in team plans and risk management refresher training has been undertaken with senior officers and members as part of the review and refresh of corporate risk register.

The Council's key corporate risks recognise potential threats from increasing demand for services and the Council's financial resilience; the corporate risk register includes measures for countering fraud and corruption, and risks that may arise as a result of partnership working, recognising that austerity and economic conditions affecting Council's key partners may potentially have a knock-on impact upon the Council.



## Narrative Report – Expenditure and Income Commentary

### Explanation of the financial statements

The Accounts and Audit (England) Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. These Statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The group accounts have been prepared in accordance with IFRS which require that the financial statements of the reporting authority (Cheshire East Council) and its subsidiaries and associates shall be prepared as of the same date.

In 2016/17 the main change in the Code's requirement which affected the Cheshire East Group of companies related to the introduction of IAS1 Presentation of Financial Statements. This introduced the 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS1 under the International Accounting Standards Board (IASB) Disclosure Initiative. As a result the format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement has changed and a new Expenditure and Funding Analysis has been introduced.

Subsidiaries have been consolidated into the Group Accounts on a line by line basis incorporating their income and expenditure fully in the relevant service revenue accounts. Note 34 provides further details of the various companies in which the Council has an interest. Tatton Park Enterprises Ltd and Cheshire & Warrington Enterprise Partnership Ltd have been excluded from Cheshire East Council group accounts on the grounds of materiality.

The statements contain a number of elements which are explained below.

### The Group Financial Statements

**Movement in Reserves Statement** - this shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce local taxation) and other reserves. Usable reserves include the Capital Grants Unapplied Account which are grants received but not yet utilised.

The 'Surplus or (Deficit) on the provision of services' line shows the true economic cost of providing the Group's services, which is shown in more detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes.

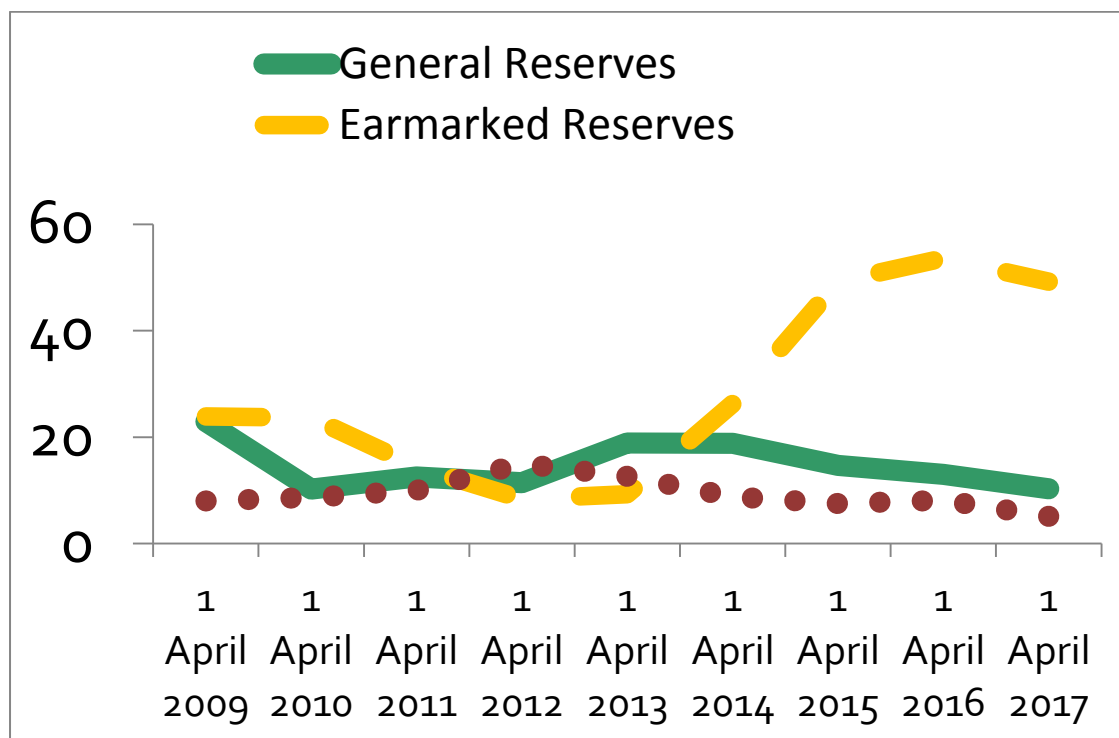
The 'Net Increase / Decrease before Transfers to Earmarked Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The Group's long term strategy is to hold appropriate levels of general reserves to provide funds for investment and to protect the Group against financial risks.

General (£10.3m) and Earmarked reserves (£54.3m including Schools) have decreased in 2016/17 to £64.6m. The overall level of reserves is adequate to continue to protect the Group against financial risks and to provide opportunities for investment in the medium term. The impact of rising demand for services, the economic climate, emerging Government policies (particularly in

relation to business rates), and pressure on public services to reduce overall expenditure are relevant, and these present the potential for significant emerging risk. The minimum target level of reserves is quantified by a detailed risk assessment. This approach allows the Council to take account of local circumstances and the impact of economic forecasts.

**Reserve levels are considered to be adequate and consistent with the Group's current strategy.**



Source: Statements of Accounts, Cheshire East Council, 2009-2017

**Comprehensive Income and Expenditure Statement** – this statement reflects the sum of all income, expenditure, gains and losses incurred by the Group in the last 12 months and explains how the Balance Sheet position has changed between the two financial years. This statement shows the financial position in accordance with accounting practice which means that the costs include notional charges for items such as depreciation, impairment, capital grants and capital charges.

In 2016/17 there is a deficit on the provision of services of £11.9m.

**Balance Sheet** – this shows the value of the Group's asset and liabilities at the balance sheet date. These are matched by reserves which are split into two categories: usable and unusable reserves. Usable reserves (e.g. General Fund and earmarked reserves) can be used to support services or to reduce local taxation. Unusable reserves arise out of the interaction of legislation and proper accounting practice, either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements. These reserves are not resource-backed and cannot be used for any other purpose.

The Balance Sheet provides a snapshot of the Group's financial position as at 31<sup>st</sup> March 2017 and includes both the General Fund and the Collection Fund balances. Despite an increase in the pensions liability (£103m) the Group still demonstrates a healthy Balance Sheet, with net assets of £274.1m, an overall decrease of £87.6m (24%).

**Cash Flow Statement** – this statement shows the changes in the Group’s cash and cash equivalents during the reporting period. It shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income, or from the recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group’s future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital.

Cash balances at the end of March 2017 have increased by £1.0m to £14.4m compared to the closing balance of £13.4m at March 2017.

**Collection Fund** – this is an agent’s statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

**Statement of Responsibilities** - this sets out the respective responsibilities of the Authority and the Director of Finance and Procurement (Section 151 Officer).

**Independent Auditor’s Report** – gives the auditor’s opinion of the financial statements and of the authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources.





## Narrative Report - Future Opportunities and Challenges

### Medium Term Financial Strategy 2017/18 – 2020/21

Public services in Cheshire East are facing significant financial challenges based on forecasts of increasing demand and announcements of reductions in government funding. The Council and its subsidiaries are also subject to year-on-year pay and price inflation. Local care services in particular are in line with national trends which show rising caseloads and increasing complexity of care needs as well as rising costs from minimum wage requirements for care providers. The Council has an excellent recent track record for managing spend in line with its financial strategies which has been achieved despite frequent uncertainty around the annual levels of grant support from central government.

In February 2017 the Council provided a balanced three year Medium Term Financial Strategy. Setting the 2017/18 budget has been the most challenging since Cheshire East Council was formed in 2009 and required a significant review of the strategy for setting Council Tax. The ambition to create greater certainty for local residents has not been easy while 2016 provided such significant changes at a national level. Brexit, and a General Election could yet prove to impact on the Council. The local challenge is in managing the levels of demand for services whilst creating a fair, equitable and viable financial outlook for the organisation.

The financial stability of the Council, which determines the amount of money available for service expenditure, should be exposed to less risk from further Government funding shortfalls in the medium term following the submission to DCLG of Cheshire East Council's [4-Year Efficiency Plan](#) in October 2016. This confirmed acceptance of the 2016/17 Finance Settlement funding levels which are now guaranteed up to the end of 2019/20. These were reconfirmed in the Provisional Finance Settlement released on 15th December 2016.

The Council also approved a revised [Corporate Plan](#) for the period 2017 to 2020 in February 2017. The updated Corporate Plan has formed the basis for developing proposals within the Medium Term Financial Strategy. Progress against the Corporate Plan is monitored through quarterly reporting to Cabinet and Overview and Scrutiny Committees. The quarterly reports identify up to date financial and operational performance of the Council and show how the latest priorities are being managed to achieve the best outcomes for local residents.

The Council's domestic and non-domestic tax bases are forecast to continue to grow in line with the Local Plan. The government has started to consult on the technical details for a possible move towards local government retaining 100% of the business rates collected, as opposed to the current split whereby HM Treasury retains 50% of the yield. The Council continues to be engaged in this consultation process, but recognises that the net impact on the local government finance sector is expected to be nil, as new responsibilities may well be transferred from other parts of the public sector if the overall funding package looks likely to increase.

In addition to changing the way some services are designed and delivered to mitigate rising costs, the Council is currently forecasting a potential increase Council Tax each year over the medium term including 2017/18 (4.99%). This reflects the change in national government policy that now assumes Council Tax will be increased each year to 2020 as part of the medium term financial settlement for Local Government. The Council is not considering proposals that would trigger a referendum. Arranging service delivery in this climate will be a challenge but the Council will continue to work hard and engage residents and businesses on how services can be designed in a more affordable way to improve value for money.

The planned increase in Council Tax for 2017/18 included the raising of an additional 3% Council Tax to support spending on Adult Social Care. Local authorities can now raise up to 3% in any year, but subject to a maximum of 6% over the three year period from 2017/18 to 2019/20.

The Council's 'best fit' approach will continue to challenge the way all services are commissioned. This also relies on a strong approach to collaboration with partners, one of the risks to the medium term provision of local services is the financial stability of all parts of the public sector. Reform is essential to improve the productivity, efficiency and affordability of the overall public service offer. The Group will continue to explore opportunities for joining up public sector services, whether for the purpose of receiving more effective vital services or simply better value for money for the local tax payer.

### Acknowledgements

The production of the Statement of Accounts would not have been possible without the exceptional hard work and dedication of staff across the Council and its subsidiaries. I would like to express my gratitude to all colleagues, from my team and other services and organisations, who have assisted in the preparation of this document. I would also like to thank them for all their support and expertise during the 2016/17 financial year.

I hope you find this narrative and accompanying statements clear and informative. If you require any further information, please contact Cheshire East Customer Services on 0300 123 55 00 (all calls at local rates).



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Director of Finance and Procurement (Section 151 Officer)