

Council

17 July 2024

Progress of Transformation

Report of: Rob Polkinghorne, Chief Executive

Report Reference No: CP/06/24-25

Ward(s) Affected: All

Purpose of Report

- 1 The report provides an update on the progress of the transformation programme and highlights two key areas that council is asked to consider:
 - (a) The approval route for the transformation programme plan to enable submission to the Department of Levelling Up, Housing and Communities (DLUHC) by the 27 August in order to secure the requested Exceptional Financial Support.
 - (b) The risk appetite of the council in relation to the significant change that will be needed as a part of the transformation of the organisation.

Executive Summary

- 2 The report sets out the progress to date of the transformation programme and outlines the key activity that has been undertaken over the last few months, to identify and quantify the required opportunities that will be needed to ensure the council meets the requirements of the Exceptional Financial Support requested.
- 3 The financial situation of the council means that it has no option but to transform the way it delivers its services. The requirement for a transformation programme has been established through the approval of the Medium-Term Financial Strategy (MTFS) in February 2024, the S151 Officer's Section 25 report, and through the conditions that need to be met as part of the Exceptional Financial Support from DLUHC (Department for Levelling Up, Housing and Communities).

- 4 The transformation programme will facilitate deeper and broader service redesign, supported where appropriate by the investment in enhanced digital capabilities which will be required to contribute to the savings for the next 5 years from 2024/25 to 2028/29 as set out in the MTFS.
- 5 The primary objectives of the transformation programme being:
 - (a) Support the council to address the 4-year funding gap of £100m as outlined in the MTFS.
 - (b) Invest in digital technologies to enable services to adopt technology for various activities and processes, thus enabling the council to fully leverage technological opportunities to accelerate its processes.
 - (c) Develop an organisational workforce that is flexible, ensuring all staff have the necessary skills to work effectively within a transformed council.

RECOMMENDATIONS

Council is recommended to:

1. Note the progress of Phase 1 of the transformation and that it will be submitted to DLUHC by 27 August 2024.
2. Delegate authority to the Chief Executive to finalise the transformation programme plan and to submit to the Department for Levelling Up, Housing, and Communities to meet the requirements for utilisation of the Exceptional Financial Support as required.
3. Agree the Chief Financial Officer will utilise any agreed Exceptional Financial Support as needed to support the council.
4. Agree the funding envelope of £3M for Phase 2 transformation as outlined within the S151 section of the report.

Background

Progress of Phase 1 Transformation

- 6 In March this year, the transformation approach for the council was approved by Corporate Policy Committee. As part of that report the appointment of a delivery partner to help the council with its transformation journey was approved. Inner Circle, following a competitive procurement process, were appointed as the council's transformation partner on the 29 April 2024.

- 7 The first stage of the transformation process has been to identify those opportunities that offer the greatest value as well as the initial quantification of the resource that will be required to implement those changes.
- 8 Over the last seven weeks a significant amount of work has been undertaken, and more than 100 opportunities have been identified, with potential savings identified of £71.5m to £101.5m; these are now going through a validation and sensitivity analysis during July which is being undertaken via a joint team approach between the council and Inner Circle
- 9 Several deep dives into service areas are also being undertaken to explore the opportunities in more detail, these include:
 - (a) Early intervention and prevention
 - (b) Strategic asset management and economic growth
 - (c) Becoming a digital first organisation
 - (d) Adult social care commissioning and brokerage
 - (e) Children services placement optimisation

Phase 2 Transformation

- 10 The transformation programme will support the delivery of approved/proposed savings, cost avoidance, cost mitigation and identifying new savings for the coming years. The strategic business analysis, which is intrinsic in the programme, will act as a focal point of data and information to inform future change initiatives, savings and efficiencies and support medium-term financial planning.
- 11 Additional support will be required across all services to support the change process and implement new ways of working, particularly if this is to happen at the pace required to ensure financial stability in the short-term as well as over the longer-term.

Consultation and Engagement

- 12 A Series of Manager “Share and Support” and staff “In the Know” sessions have been arranged in early July, to connect, inform and update the workforce on the transformation programme and potential changes ahead.
- 13 All members will receive July briefings, with events taking place face-to-face and via Teams. These will communicate the roles and responsibilities as well as outlining the pace of change required to

support financial stability whilst providing the opportunity for members to have visibility and engagement regarding the proposals.

- 14 The briefings will be provided by the transformation board and transformation partner alongside the leader and deputy leader.
- 15 The information shared, to all stakeholders, will be imperative to the success of the transformation programme and to establish a shared understanding of the scale of the challenge that the local authority is undertaking. The various events will also clearly communicate that transformation, and the associated planned change activities, are everyone's role, to consolidate how all the workforce and members need to work together, as we move in to Phase 2 of the programme. Monthly Trade Union briefings are arranged to update on the progress of the plan.

Reasons for Recommendations

- 16 The current financial situation of the council means it has no option but to transform the way it delivers services.
- 17 Transformation on this scale represents a new and difficult challenge for the council. The programme will be delivering an ambitious and far-reaching portfolio of change programmes and projects, which address a range of fundamental issues the council faces in responding to the changing needs and expectations of residents and communities.
- 18 Recommendations 1 and 2 ensures the Council is fully conversant with the information that will be provided to central government in support of the current conditional agreement to provide Exceptional Financial Support. This information must be provided to government prior to the 27 August 2024. There is no Corporate Policy Committee meeting prior to that date. Unless full council wishes for final member approval via committee (example a potential date on 21 August 2024) the final document must be approved by the Chief Executive Recommendation 3 that allows for the deployment of the Exceptional Financial Support as required, acknowledging the potential risk mitigation that maybe required as set out in the legal and risk implications.
- 19 As part of any large scale and dynamic change programmes, it is important to continue to flex and adapt to ensure that the council continues to meet strategic objectives and the changing operating environment.
- 20 Research from a joint Charter Institute of Management Accounts and the Chartered Institute of Public Finance and Accountancy study identified that transformational change and medium to long term financial sustainability are inseparable, stating. "Transformation involves a significant change in approach to an organisation's operating model,

technology, process and/or service delivery, in order to deliver better outcomes and improve efficiency.”

- 21 It is important that the future transformation plan is compiled with this in mind as it will require us to effectively manage change, alongside building and maintaining relationships with external partners and developing new financial and staffing structures.
- 22 The emerging opportunities will require a structured transformation approach and assessment is currently under way by Inner Circle as to the likely level of the resource that will be needed to deliver required changes.
- 23 Additional capacity and capability will be needed in order for the required savings to be achieved in a timely manner.
- 24 We are now starting to look ahead to the medium term, setting our strategic direction and ambitions for the organisation through a defined operating model which is likely to need to be fundamentally different to the one today. This will be developed alongside a new Cheshire East Corporate Plan for 2025 and beyond.
- 25 A new operating model will articulate how the organisation will run at a future point in time when the transformation from the ‘As-Is’ state to the ‘To-Be’ has been achieved. The basic parameters that need to be considered in that model are:
 - (a) The outcomes and benefits of what we offer, including Key Performance Indicators (KPIs)
 - (b) The target client(s), customer(s), and resident(s) that the model is looking to address.
 - (c) Relations with key stakeholders including the motivations to work in partnership.
 - (d) The structure of the organisation to ensure that the core capabilities are in place to deliver.
 - (e) Configuration of activities and services and how we deliver systems through the use and adoption of technology.
 - (f) The overall cost and core financial structure of the organisation.
- 26 The council will need to deliver at pace the opportunities that have being identified; it is important to recognise that the transformation programme is one of several elements that need to be progressed in parallel to deliver stability in the council's financial position, the others being:

- (a) Sound day-to-day budget management.
 - (b) Monitoring delivery of savings, growth, and income in MTFS 2024-28.
 - (c) Developing robust proposals (business cases) for MTFS 2025-29; and
 - (d) Recommendations from LGA Corporate Peer Challenge
 - (e) Establishment of the independent assurance panel.
- 27 As part of the submission of a transformation programme plan to DLUHC it is important to recognise that over the past 18 months Adults, Health and Integration, Children and Families, Corporate services and the Place directorates have all been undertaking bespoke, service specific programmes of improvement, change and transformation.
- 28 Whilst each of these standalone programmes will individually deliver efficiencies and improve outcomes, we are missing opportunities to identify those changes that will deliver the greatest benefit. We must adopt consistent approaches to change, deploy time and resource appropriately and ensure that we prioritise the actions that will make the biggest difference to deliver savings and change in the most effective and efficient way.

Other Options Considered

- 29 The council, to achieve the required savings identified within the MTFS must transform how it currently delivers its services, there is not an option to do nothing. The only viable option to enact the transformation programme as quickly as possible is to bring in additional capacity and expertise.

Option	Impact	Risk
Do nothing	The council would not meet the conditions for Exceptional Financial Support. There would be no access to the capitalisation of revenue expenditure that was required to manage in-year financial risks.	Insufficient funding to fulfil statutory requirements of the council. This could lead to an unlawful financial position that requires the issue of a s114 report.

Option	Impact	Risk
	Without the change required to create sustainable finances the council may be unable to fulfil its statutory obligations.	
Transformation, resourced in house	Reduced costs associated with procurement of a delivery partner, development, and ownership within existing resource.	Existing capacity and/or capability is insufficient to deliver the transformation programme resulting in the required level of savings not being achieved.
Transformation resourced completely externally	Rapid deployment of resources to achieve savings, up-front cost required and ongoing costs.	This option is not financially sustainable in the long term.

Implications and Comments

Monitoring Officer/Legal

- 30 There are legal considerations as part of this report. The request for Exceptional Financial Support within the amended legislation introduced under The Levelling-up and Regeneration Act 2023, which inserted an amended Section 12A is a trigger event section 12A (2)(c)(i).
- 31 The legislation also provides for risk mitigation directions to be given to the council which limit the ability to undertake certain financial action. The limitations are based on identified risk thresholds set out in section 12B.
- 32 Council will need to agree the budget for Phase 2 of the transformation programme.
- 33 The transformation programme has a governance structure consisting of a board which answers (currently weekly) to the corporate leadership team. The delivery of individual programmes or activities under the transformation programme will require individual consideration decision making and reporting.

Section 151 Officer/Finance

- 34 The council has set a balanced budget for 2024/25. In section 25 of the MTFS report, the section 151 officer stated:
- (a) The council must transform to create sustainable services and support infrastructure projects that reflect 'whole life' costs. This must cover the medium to long term and be backed by reserves that can manage any emerging risks.
 - (b) It is highly likely that the council will require additional capacity to manage this programme, in a way that is yet to be determined, but it will inevitably require additional funding, which will need to be met from within existing resource.
- 35 The council received a grant award from the LGA for £100,000 to support the transformation programme which is being used to offset the Phase 1 costs.
- 36 The council received confirmation from DLUHC that they are minded to approve the council's request for Exceptional Financial Support. However, there are several conditions that will need to be met prior to formal approval, in summary the council must:
- (a) Undergo an external assurance review on the council's financial position and financial management policies, and the council's work to improve its productivity and efficiency.
 - (b) Produce an improvement and transformation programme within six months (27 August 24) that is focused on delivering the council's key objectives and securing the medium-term financial position.
 - (c) The programme should incorporate any recommendations identified as part of the external review.
- 37 Further funding will be required to support Phase 2 of the transformation programme, the costs associated with this are being defined currently and will be presented alongside the transformation programme.
- 38 Members are asked to establish a budget envelope of up to £3m to fund Phase 2 of the transformation programme. This will be funded through existing reserves of the council in the first instance. This funding will need to be replaced either through any initial delivery of in-year savings or through identifying any additional flexible capital receipts that can be used to fund transformation work. Without this investment, the council will not have the capacity to deliver the required level of savings that have been identified in the Medium-Term Financial Strategy, of at least £100m over the life of the MTFS.

- 39 The use of this transformation fund will be reported through the standard budget management reporting to Finance Sub Committee and Corporate Policy Committee. The funding will provide the capacity to support delivery of transformation projects as well as support the seed funding for some invest to save proposals, supported by proper business cases identifying how the money will support longer term transformational change, and deliver sustainable reduced costs overall.
- 40 This transformation plan links closely with other improvement work, particularly in Children's services where the council must respond to the external inspection and the need to improve outcomes for our children and young people. This transformation programme includes investment across all service areas but is also aligned with the improvement plan following our ILACS inspection.

Policy

- 41 The principle and themes of the transformation programme are aligned with the council's vision, priorities and values as outlined in the Corporate Plan 2021-2025 and refreshed Cheshire East Plan 2024/25.
- 42 The transformation programme seeks to directly support the aims of being an open and enabling organisation, a council which empowers and cares about people, working together with residents and partners, and a thriving and sustainable place.

Equality, Diversity, and Inclusion

- 43 The fundamental principles underpinning the need to transform have equality, diversity, and inclusion as a golden thread at the heart of all plans for change.
- 44 At all stages of transformation, consideration is given to the Public Sector Equality Duty under s.149 of the Equality Act 2010 and it is recognised that we must remove or minimise disadvantage and take steps to meet the needs of persons sharing all protected characteristics such as a disability or age.
- 45 The duty also provides that public authorities must encourage persons with a protected characteristic to participate and influence where participation and engagement by such persons is disproportionately low.
- 46 The previous periods of public service change have impacted disproportionally across communities. At times, those stakeholders and residents who have the greatest needs have lost out relative to others.
- 47 The Transformation programme has an aim to improve the experience of all customers when interacting with the council and will seek to ensure

that the council recognises and addresses individual needs and/or barriers to accessing services now and in the future.

- 48 It is expected that an Equality Impact Assessments will be completed at key stages of the transformation programme and will ensure that the impacts of change, on both internal and external stakeholders, will form an essential part of decision making,
- 49 An equality impact assessment will be undertaken and presented along with the transformation plan to Corporate Policy Committee in August.

Human Resources

- 50 It is important to recognise when an organisation embarks on transformation of this scale, it can either have a positive or negative impact on culture depending on the approaches taken therefore, it is critical that the transformation programme builds on the culture and behaviour work which has already been embedded into the organisation.
- 51 The work on the decision-making accountability work, will help to stabilise the organisation ensuring that there is buy-in from all levels of the organisation to contribute to the success of the overall programme.
- 52 The transformation programme will establish a target operating model for the council, which will be fundamentally different to the one in place now.

Risk Management

- 53 To successfully achieve the objective of the transformation programme, each of the opportunities that have been identified will need to be delivered, and there remains the distinct possibility that further measures will need to be taken. The council will therefore need to consider and define its appetite for risk as part of its transformation programme to support informed decision making, reduce uncertainty, and to ensure focus on priorities.
- 54 A risk appetite defines the amount and type of risk that an organisation is willing to take to meet strategic objectives, and risk thresholds establish the boundaries outside of which an organisation is not prepared to venture in the pursuit of long-term objectives. Table 1 sets out the descriptions of risk appetites in the council's risk management framework.
- 55 Whilst the council is not averse overall to taking risks, there are individual aspects of risk appetites where a more cautious, or risk averse approach has been appropriate, for example, in relation to statutory obligations, legal responsibilities, and fraud.

- 56 In other areas, a minimalist, cautious, and open appetite can be appropriate – particularly where existing operational systems of work can be developed or enhanced.

TABLE 1	
Appetite	Description
Hungry / High Risk Appetite 5	Eager to be innovative and choose activities that focus on maximising opportunities to achieve objectives (with additional benefits and goals) and offering potentially very high reward, even if these activities carry a very high residual risk that may result in reputation damage, financial loss or exposure.
Open / Moderate Risk Appetite 4	Willing to undertake activities seeking to achieve a balance between a high likelihood of successful delivery and a high degree of reward and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.
Cautious / Modest Risk Appetite 3	Willing to accept / tolerate a degree of risk in certain circumstances when selecting which activities to undertake to achieve key objectives, deliverables, or initiatives, where we have identified scope to achieve significant reward and/or opportunity. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent.
Minimalist / Low Risk Appetite 2	Preference to undertake activities considered to be very safe in the achievement of key deliverables or initiatives. Activities will only be taken where they have a low degree of inherent risk. The associated potential for reward / pursuit of opportunity is not a key driver in selecting activities.
Averse / Zero Risk Appetite 1	Avoidance of risk and uncertainty in achievement of key deliverables or initiatives is paramount. The council is not willing to accept risks under any circumstances and activities undertaken will only be those considered to carry virtually no inherent risk.

- 57 In the context of the objective of the transformation programme, the wider financial position of the organisation, and the decision making required to achieve successful delivery, understanding the risk appetite in relation to an individual decision, and its part in the wider transformation programme will be key information. The specific nature of the risk category relevant to the decision should also be considered, for example, governance risk, financial risk, people risk, reputational risk, and partnership risk.
- 58 Several of the opportunities being considered will be subject to business case development, and approval at the relevant committees will form part of a critical path; members should take due regard to the risk that if a decision is not progressed then equivalent savings will need to be identified.

59 The council's Strategic Risk Register includes those risks which materially threaten the organisation's ability to achieve its strategic goals, and the mitigation action for each of those risks will have dependencies on the transformation programme. There are specific risks associated with the organisation's ability to transform, which are currently rated as critical risks.

(a) **SR07 – Leadership Capacity:** There are a number of vacancies and temporary acting up arrangements in place in Cheshire East council's leadership team, which limits its capacity and prevents the team from operating as effectively as possible. Without the right capacity across the leadership team, the organisation is unable to flex and respond to its challenges.

(b) **SR08: Ability to Achieve Organisation Change:** The council is unable to achieve organisational change due to a lack of resources and capacity to focus on transformation as people focus on the delivery of business as usual. Recently received advice from government commissioners advised that organisational change capacity is a key ingredient to support the council in delivering transformation to achieve medium to long term change that will support achievement of savings and also, in the event of a section 114 notice being issued, organisational change capacity is also essential to deliver necessary actions arising from interventions.

Rural Communities

60 Any impact on rural communities will be considered as part of the transformation programme. Children and young people including cared for children, care leavers and children with special educational needs and disabilities (SEND).

Children and Young People.

61 In Children and Families significant work reviewing SEND services has been undertaken in conjunction with the Department of Education to identify what change is required to ensure long-term financial affordability and sustainability of services for the council.

62 Also, a broader programme of service transformation under the banner of the Together Strategy – a 4-year programme to excellence is part of the MTFS to ensure we are doing different for less with further integration and practice improvement.

63 Adults, Health, and Integration have reviewed social work practice and commissioned care services. Through targeted activities they are supporting more people to stay in their own homes where that is the most cost-effective option, supporting more people to train to work in social

care services, and developing business cases to build new accommodation, so that people can have the right home for each stage of their lives. The department is also adopting new tools to support the development of pricing strategies and negotiating approaches for commissioned services.

Public Health

- 64 A key consideration of the transformation programme must be on addressing the large difference in residents' health across the borough, this will involve the council working with partners to improve health outcomes.
- 65 Health improvements will only be made by embedding public health considerations across all local authority functions where appropriate.

Climate Change

- 66 The transformation programme will focus on all aspects of the council's plan, this must include the activities that are required to achieve carbon neutrality by 2027.

Access to Information	
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Appendices:	None
Background Papers:	None