

30 October 2012

The Members  
Cheshire East Borough Council  
Westfields  
Middlewich Road  
Sandbach  
Cheshire

Dear Member

## **Cheshire East Borough Council - Annual Audit Letter 2011/12**

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Cheshire East Borough Council.

### **Financial statements**

On 27 September I presented my Annual Governance Report (my report) to the Audit & Governance Committee outlining the findings of my audit of the Council's 2011/12 financial statements.

The Council significantly improved its closure of accounts process this year. The accounts presented for audit contained no material errors and far fewer other errors than in previous years. Supporting audit trails and working papers were also much better. The finance team have now implemented the recommendations from the last two audits including important improvements to their quality assurance arrangements. This has all helped to reduce the number of errors identified during the audit and improve the overall quality of the accounts.

Following the Audit Committee on 28 September I issued an unqualified opinion on the Council's 2011/12 financial statements included in the Council's Statement of Accounts.

### **Value for money**

I am also required to assess your arrangements for securing value for money, (vfm), in your use of resources. As highlighted in my report, I have some concerns about the Council's arrangements to secure vfm in its use of resources.

I concluded that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. But its processes to develop business proposals and manage significant projects needed to be improved. I issued a qualified vfm conclusion on 28 September.

During the audit of your accounts, I received questions from a number of local electors. I agreed to hold the audit open until 12 October 2012 to allow two of them time to exercise their statutory rights. I have not received any objection notices to the accounts. The 2011/12 audit is now complete and I have issued my certificate closing the audit.

### **Key Messages**

While I will not replicate the findings set out in my Annual Governance Report in any detail I set out the key messages from my value for money work below.

The Council continues to face financial pressures and has accepted, more recently, the need to review and improve its own arrangements for securing financial resilience. Since its inception in April 2009 the Council has had to manage unplanned budget pressures each year. This has involved restructuring departments and a repeated focus on reducing costs. In 2010/11 the Council also had to react to the emergency budget set by the new Government. This pattern is continuing in 2012/13 – in its first quarter report the Council identified pressures of £22m.

Despite this very challenging context, over the last three years, the Council can also point to a number of successes. For example, it has:

- Approved a new Customer Services strategy putting customers at the heart of everything it does. It achieved the highest 4 star rating in a national annual survey for customer experience on its website - one of only 23 councils to do so.
- Harmonised terms and conditions for all staff into one single set for Cheshire East - without threats of industrial action. In May 2011 the Council attained liP recognition and later that year, a North West Skills Award – in recognition of its whole organisation approach to workforce development.
- Continued to improve safe guarding services for children following its positive OFSTED inspection in 2011. In addition, educational results at all levels are being maintained above the national average.
- Run a successful fostering campaign which received national recognition, to reduce the number of young people going into care, and has achieved better outcomes for those children in care.
- Procured new arrangements to provide better value-for-money in several important service areas, including highways maintenance, HR, Finance and ICT.

Since 2010 the Council has also sought to improve its business planning and budget setting process. But in 2011/12 there were weaknesses in the Council's processes for translating budget proposals into deliverable plans. Since April 2012, the Council has put in place new arrangements designed to help ensure that planned savings are delivered.

So far, the Council has used its reserves to help manage its overall financial position. It has recognised that its General fund reserves are no longer adequate to support in year pressures and are now below the Council's own assessment of the financial risks it faces. The Council is developing a new Medium Term Financial Strategy which will include proposals to increase reserves to an acceptable level. The Council intends that strategy to also:

- make it clear that realistic savings targets need to be set for each of the next three years; and
- recognise that, while the use of reserves to date has been planned, their continued use to support budget pressures is not sustainable.

I have reviewed the actions taken by the Council relating to its decision to build a waste transfer station at Lyme Green, Macclesfield. The transfer station was part of the Council's plans for an improved waste and recycling collection service. In January 2012 the Audit & Governance Committee commissioned internal audit to review what happened at Lyme Green. That review identified a number of important governance and internal control issues. The Council accepted all of the recommendations for improvement set out in the internal audit report. It is clear that the Council has already begun a series of key actions and changes to address the issues highlighted by Internal Audit. These actions should also help the Council satisfy itself that the issues raised by Lyme Green are not repeated.

The Audit & Governance Committee will continue to monitor the delivery of the agreed action plan. In June 2012 the Council's staffing committee also approved the appointment of an independent investigator to consider the actions of the officers involved. That investigation is underway and should be concluded later this year.

During my audit I received letters, emails and telephone calls from members of the public concerned about what happened at Lyme Green. While I was not involved in the detail of the internal audit investigation the Council kept me fully informed of emerging issues together with its response to those issues. The Council acted quickly to strengthen its governance and internal control processes and is continuing to implement internal audit's recommendations. I have considered carefully whether I should take any further audit action in response to the issues raised by Lyme Green. I have concluded that I do not.

The full text of my annual governance report is available on the Council's website via the link below – at agenda item 7:

<http://moderngov.cheshireeast.gov.uk/ecminutes/ieListDocuments.aspx?CId=486&MId=4295&Ver=4>

### **Looking forward**

My report included a small number of high level recommendations to improve the Council's arrangements to secure value for money. The most significant was the need for clearer strategic direction and political leadership when agreeing priorities, taking difficult decisions and supporting officers to deliver agreed plans.

The Council appointed a new Leader in May 2012 and an interim Chief Executive joined in August 2012. The new Leader quickly recognised the need to provide clearer strategic direction and leadership and to build on the positive aspects of the legacy of the Council's first three years. Working with the Chief Executive, and his Cabinet, the Leader has developed a new vision for Cheshire East. This defines the Council's core purpose, the desired outcomes for local people and its priorities for investment and development over the next three years. The vision was agreed by Cabinet on 15 October 2012 and is expected to drive the Council's revised financial strategy. The Council is also planning extensive consultation on its new vision.

Some of the recommendations in my report link closely to those made by internal audit in relation to project management and aspects of the Council's budget setting process. The Council has accepted all of my recommendations and agreed a detailed action plan which is now being put in place. A copy of that action plan is attached to this letter.

In that action plan the Council emphasises the historic and continuing underfunding issues it faces. These include the aging population, pockets of deprivation and the rural nature of the Borough. Together with continuing funding pressures and competing demands for services it is important that the Council has robust plans in place to manage the major changes needed over the next three years and beyond.

The Council's response to my recommendations highlights a number of actions which should help satisfy itself that the areas for improvement highlighted in my report and also by Lyme Green are addressed. For example:

- In May 2012 the Council clarified when delegated decision making is appropriate and implemented procedures to deal with any non compliance. It is also improving the way its deals with in-house planning advice to satisfy itself that the process is robust and separate from the its statutory planning responsibilities.
- More recently the Council has revisited its corporate and medium term financial plans. A paper to the October Cabinet set out the Council's purpose and values underpinning its strategic objectives. This work was also used to affirm its underlying budget principles such as a three year planning horizon; policy led decision making; and recognition that the use of limited resources needs to be focussed on essential services and targeted outcomes.
- The Council is also developing its governance framework to enhance Cabinet members' roles in decision making and support new scrutiny arrangements and policy development groups.
- Work on the revised project management arrangements includes the establishment of a member led Executive Monitoring Board to allow greater strategic and financial oversight of project development and delivery.

These changes, allied to the actions being taken to reinforce business planning, budgeting and performance management arrangements should, if successfully implemented, place the Council in a stronger position to achieve its vision.

**Closing remarks**

I have discussed and agreed this letter with the Chief Executive and Director of Finance & Business Services. I wish to thank finance staff for the positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit & Governance Committee for their support and co-operation during the audit.

Finally, you will be aware that in response to the Government decision to put in place a new framework for local public audit, the Audit Commission has carried out a procurement exercise to externalise the work of its in house practice. The contract for North West audits, including Cheshire East Borough Council, has been awarded to Grant Thornton (UK) LLP. Existing employees from the Audit Commission's in house practice will transfer to Grant Thornton on 1 November 2012. I hope to remain your Engagement Lead and look forward to continuing to work with you.

Yours sincerely

Judith Tench  
*District Auditor*