

Annual Audit and Inspection Letter

February 2008



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Borough of Crewe and Nantwich

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 The Council has made good progress over the last year. Improvements have been achieved in all priority areas and there is more consistency than last year. Performance measures also show that Council services are improving at a faster rate than most other councils. Key areas of achievement include significant reductions in crime levels, improvements in recycling rates, good progress on meeting the needs of migrant communities and further developments to improve access to Council services.
- 2 The Council has made progress in implementing plans to sustain future improvements. Areas of progress include equalities and diversity, performance management and implementation of a new management structure. The overall score assessing how well the Council is managing and using its resources also continues to be good. However in one area, internal control, performance has slipped from good to adequate.
- 3 Government's plans for Local Government Reorganisation (LGR) in Cheshire puts considerable pressure on Council capacity and significantly increases governance risks. The Council is aware that this is the key area for focus during the next year.

Action needed by the Council

- 4 Key areas for action for members in particular to note are to:
 - oversee the effective delivery of Local Government Reorganisation whilst ensuring that:
 - good service delivery is maintained; and
 - attention is focused on maintaining proper control and management of the organisation and its resources;
 - ensure the most is made of existing capacity by making effective use of section heads and section managers and focusing action on minimising sickness absence; and
 - demonstrate how work with partners to improve quality of life for residents is having an impact.

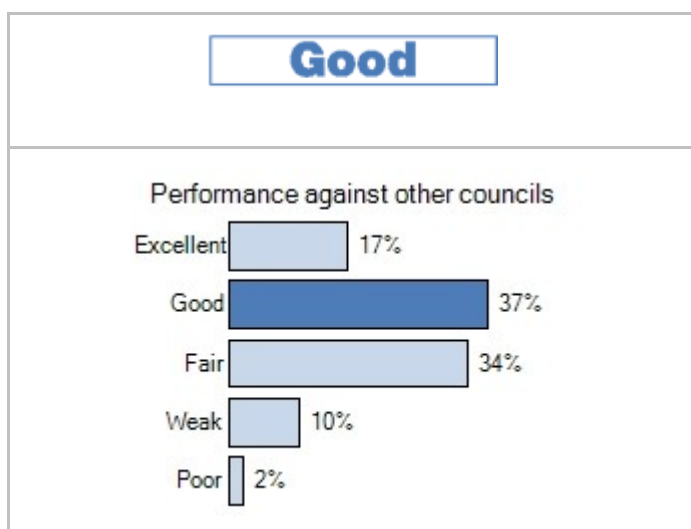
Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 6 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. (In addition the Council is planning to publish it on its website).
- 8 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Crewe Council performing?

- 11 Crewe and Nantwich Borough Council was assessed as good in the Comprehensive Performance Assessment carried out in 2003. These original assessments were completed in all district councils in 2005. We are now starting to update the assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 12 The Council has made good progress over the last year. Improvements have been achieved in all priority areas and there is more consistency than last year. Performance measures show that Council services are improving at a faster rate than other councils. In 2006/07 the proportion of performance indicators improving was 73 per cent which places the Council 19th out of 388 councils nationally and is well above the average for district councils of 58 per cent. Demonstrating improvement in wider community outcomes and delivering some elements of planned priorities are still challenges. Government's plans for Local Government Reorganisation (LGR) in Cheshire will also put considerable pressure on capacity. The Council is aware these are key areas for focus over the next year.
- 13 The Council's performance in its priority areas of growing prosperity, safer and stronger communities, community leadership and making the borough cleaner and greener are covered in the following paragraphs.

- 14 Growing prosperity** - Progress in this priority is good. Regeneration of Crewe is a key element of this priority area and progress has been made with the development agreement being signed for Crewe town centre redevelopment. There has also been continued growth in jobs with 368 jobs being created. Work started last year to focus on preventative work to reduce homelessness is having an impact with lengths of stay in hostels and bed and breakfast accommodation by homeless people reducing. Performance has improved in planning with all indicators showing improvement and many now top performing. However there is concern about the sustainability of this improvement with the loss of two senior planning officers.
- 15** The Council is making good progress in improving private sector housing conditions by meeting its government target for bringing empty properties back into use and achieving the decent homes standard. Although significant numbers of houses are being built in the area, affordability is a concern. Through partnership working 88 affordable homes were built last year but this is below the Council's target of 139. New housing developments in Crewe can now be included in affordable housing schemes. Taking this into account and other recent planning approvals numbers will increase in the next few years, but as was the case last year; this remains an area for improvement.
- 16 Making our borough cleaner and greener** – there has been good progress in this area. Recycling performance has improved and is now above average at 33.5 per cent. The amount of waste the Council collects has reduced, although the cost of waste collection continues to increase. Increased resources to reduce littering has led to some improvement. The percentage of areas littered to a heavy extent reduced from 18 per cent in 2005/06 to 12 per cent in 2006/07. Also the percentage of land with graffiti and fly-posting has reduced and public satisfaction with cleanliness has improved. However for majority of these indicators Council performance is still relatively low indicating scope for further improvement.
- 17 Safer and stronger communities** – achievements in this priority area are mixed. Most positively overall crime levels are reducing. With partners, the Council has achieved a nine percent reduction in overall crime rates in the year ending March 2007 and further reductions of 21 per cent from April to December 2007. Improvements are being achieved in all crime areas except for theft from a vehicle which increased during 2007. Anti social behaviour has reduced as a result of targeted youth diversionary work in 'hotspot' areas with a 10 per cent reduction so far this year compared to 2006/07. Fear of crime remains a concern for local people and is a key priority area for the Council and its partners, so continued focus is needed on ensuring partnership investments are having an impact.

- 18 Less progress is being made in narrowing the gap between the more deprived neighbourhoods and the borough as a whole. One area, Delamere, has become less deprived but the district still includes 11 areas among the 25 per cent most deprived in the country. Three of the eight priority wards in the borough have seen a greater reduction in crime levels than the borough as a whole. Partnership performance monitoring information shows that unemployment levels have remained static since 2005 and skills levels have not improved. Progress on reducing health inequalities is difficult to demonstrate with the information that is available showing a very mixed picture. Partners have had some success in improving educational attainment at primary school level in deprived areas as a result of an emphasis on early years development, however improving GCSE results in deprived wards remains a challenge. These are long-term issues which may take many years to show a difference and the Council is aware of the challenges it has in these areas. A number of projects and initiatives are underway such as the recently opened integrated health centre, targeted learning and development programmes and the new school provision in the inner wards.
- 19 Through the Changing Communities project the Council has continued to make good progress on meeting the needs of migrant communities. It is extending its approach through working with other agencies to develop a migrant communication strategy to explore how partners can work better together to communicate with migrant workers. It is also developing knowledge of the Portuguese community in the borough and is hosting a regional event in April based on sport.
- 20 **Community Leadership** - Progress in this priority area is mixed. Four Parish Plans have been implemented and a further ten are in development. These provide a useful mechanism to improve community engagement in rural areas. Community engagement in the priority neighbourhood action areas is not as effective with involvement in and support for neighbourhood forums being patchy. The Council recognises that the effectiveness of neighbourhood forums varies and is now developing an approach of using different mechanisms in different areas to suit local circumstances. New mechanisms include the development of a Neighbourhood Platform involving 45 residents from the targeted regeneration wards.
- 21 The Council is improving customer access and it has opened a one stop shop in Nantwich. It has redesigned its web site and has web casting of Council committees. It has also increased the number of services available at Customer Service Points and 100 per cent of services capable of electronic access are e-enabled.
- 22 Results from the 2006/07 resident satisfaction were disappointing. Overall satisfaction with the Council has decreased and is low compared to other councils. Improvements in satisfaction in service areas was also mixed - some improving, some unchanged and others deteriorating. The Council is aware that these issues, together with challenges around the negative public perception of the area, need to be taken forward in the development of the new Eastern Cheshire Unitary Council.

- 23 The Council has also made progress in implementing plans to sustain future improvements and develop its internal arrangements. These are outlined in the following paragraphs, along with areas for further improvement. It is recognised that addressing the latter will need to be considered in the context of LGR.
- 24 Areas of improvement include:
- developments to the Council's strategic framework including the launching of the younger persons housing strategy and a new social inclusion strategy. The latter will enable the Council to develop relationships with more community based groups thereby increasing knowledge of local issues;
 - good progress in developing the approach to equalities and diversity. The Council now has a good policy framework to guide its approach and a detailed project plan for achieving Level 2 of the Local Government Equality Standard by March 2008. It has developed guidelines for carrying out equality impact assessments and carried out some training but recognises there is more to do to develop a comprehensive programme. An equality monitoring report has been developed to ensure corporate consistency in monitoring access to services. This will enable the Council to better understand who uses services, and how to tailor these in line with local needs;
 - staff resources to improve communication are now in place. Internal communication has improved with the staff newsletter (CANCAN) now more regular and a team brief in place;
 - a service review programme based on a detailed assessment of service costs and performance is in place. Completion of the reviews will enable the Council to better assess value for money and improve performance in the future;
 - performance management has improved. Performance monitoring reporting is more focused and there is increased ownership of targets by allocating responsibility for specific targets to managers. A new business planning template is in place ensuring a consistent approach across the Council. Target setting has improved and these now reflect top or second quartile performance. Performance management in leisure services has been strengthened through membership of Leisure Exchange, a benchmarking club which enables the service to learn from good practice elsewhere; and
 - a new management structure is now in place with the appointment of three new strategic managers.
- 25 However there are still some important issues to address.
- Capacity limitations remain a concern. As a result of the new senior management structure there is pressure on staff resources at lower levels. LGR will also add to the workload of staff.
 - The Council has completed job evaluation with a new pay model in place. However the number of appeals against grading is high, with 100 to be heard over January to March 2008 out of a staffing establishment of approximately 700. Dealing with appeals will put additional demands on capacity.

- Sickness absence is increasing, most likely as a result of job evaluation and LGR. There is a general view that these issues have impacted on staff morale too, but the Council does not know if this is the case as employee satisfaction has not been monitored since the last staff survey in 2005. It will now be a considerable challenge to sustain the reduction in absence rates achieved in 2006/07.
- The Council is not making the best use of the skills of section heads to inform debate and decision making. Managers are involved in decision making through quarterly service manager forums and by invitations to management team on specific issues. This level of involvement does not enable managers to be fully involved, for example service heads have not been involved in the review of the competency framework which was seen as an HR task. The Council hopes to be able to use opportunities from LGR as a means of better empowering these staff. Also the management restructure and appointment of new strategic managers provides further opportunity, given the consequential back-filling of posts, to raise the profile and involvement of senior staff in the corporate life of the Council.

Cheshire Partnership Project

26 During 2006, following a period of consultation with 16 public agencies in the county which included Crewe Council, the Audit Commission initiated an improvement project intended to help strengthen partnership working in Cheshire. The project was managed to support the work already underway to develop partnership working. In April 2007 the work was concluded with presentations to the Communities of Cheshire Partnership (CCP) and Cheshire Local government Chief Executives group. Key recommendations included to:

- put in place realistic and coherent support arrangements to underpin the work of the CCP;
- map out what information gathering routines (including community consultation) partners have and look for ways to collaborate in information gathering to get rid of duplication;
- consolidate arrangements for engagement with the voluntary and community sectors at the county level;
- make it easier for partners to understand what's going on and where they fit in;
- put in place a development programme for partnership work at all levels from governance board to operational on the ground delivery; and
- get a better understanding of the community cohesion issues in the county:

Events have now been overtaken with LGR in Cheshire. New partnership arrangements will start to be established in Eastern and Western Cheshire during 2008/09, so existing arrangements will not be further developed. It is important that the messages from this work are addressed as part of the establishment of the new partnership arrangements.

The audit of the accounts and value for money

- 27 Your appointed auditor has reported separately to the Performance and Overview Committee on the issues arising from our 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 19 September 2007; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 28 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following 'theme' areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 29 This is the third assessment undertaken at the Council. The assessment is based on the key lines of enquiry for 2007. These include new requirements for the Council as part of the Commission's approach to phasing in those elements that need more lead in time and to supporting improvement by gradually raising the standard of the assessment. The period assessed for 2007 has also been aligned with the financial year 2006/07.
- 30 It is worth noting that the 2006 assessment was carried out in late 2006/ early 2007 and was reported to the Council in March 2007 and that the 2007 assessment is focussed primarily on those arrangements in place at 31 March 2007. As such the scope for significant movements in some scores was inherently limited.

- 31 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in the five theme areas as follows.

Table 1 Crewe's arrangements

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 32 Overall, the Council is performing well and consistently above minimum requirements overall. The overall score in 2007 maintained that achieved in prior years, although the theme score for internal control reduced from level three to level two.
- 33 In relation to internal control the auditor assessed the arrangements for both risk management and those for propriety and probity warranted level two scores this year.
- 34 In relation to risk management, level three was not achieved for two reasons. Firstly, the Council needs to be more proactive in the provision of training for members with responsibility for risk management. Member training on this subject did not take place in 2006/07. A course planned for November 2006 was cancelled due to poor uptake. Secondly, the auditor believed there is scope to provide more regular reports to members on the management of corporate business risks. Currently the Board receives an annual report on risk management.
- 35 Regarding propriety and probity the Council's score decreased from level three to level two because the Council was unable to demonstrate to the auditor that it had been proactive in raising the standards of ethical behaviour.
- 36 The auditor saw no evidence of any proactive activity in the year. A discussion with members at the Audit Committee has confirmed that whilst ethics training courses etc have been made available for members during 2006/07 (June 2006 and November 2006), they were either cancelled or failed to attract any attendees.

- 37** In summary, to address the above the Council should:
- be more proactive in the provision of training for members with responsibility for risk management; and
 - demonstrate that it has been proactive in raising the standards of ethical behaviour and ensure that planned ethics training is actually delivered and that member attendance is widespread.
- 38** The auditor's detailed report on the Use of Resources Assessment was produced in December 2007 and contains a number of recommendations to secure improvements in the Council's arrangements.
- 39** Since the delivery of the Council's Use of Resources assessment for 2007 Government's plans for Local Government Reorganisation (LGR) in Cheshire were announced. Implementing LGR puts considerable pressure on Council capacity and significantly increases governance risks. It is therefore important that, as well as maintaining the improvements achieved in 2007, attention is focused on maintaining proper control and management of the organisation and its resources in the context of the increased risks.
- 40** In relation to data quality arrangements the auditor concluded that the Council's arrangements were adequate, reporting to the Audit Commission in October 2007.
- 41** The auditor has also carried out work on a number of government grant claims. There were no matters arising that warrant Members' attention.

Looking ahead

- 42 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 43 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 44 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 45 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to the Board meeting on 6 March 2008. Copies need to be provided to all Council members.
- 46 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	May 2006
BVPP report	November 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of Resources 2007 assessment	December 2007
Annual audit and inspection letter	March 2008

- 47 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 48 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Gill Orme
Relationship Manager

March 2008