

Annual Audit and Inspection Letter

March 2007



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**Malvern Hills District Council**

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **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.

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## Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the 2005/06 audit of the Council and from inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report for 2006) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for a rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council. The main messages for the Council included in this report are set out below.
- 3 The Council has continued to do well in developing such areas as financial reporting and financial standing as evidenced by the improvement in use of resources scores. Corporate processes have been strengthened but the Council needs to continue to ensure that these result in improved service outcomes.

## Performance issues

- 4 Overall, the Council has improved the delivery of its services. Service improvement is better than average and costs are rising less than in other Councils. There has been mixed progress in implementing improvement plans. In waste collection and recycling, performance has improved, but there has been slow progress in town centre enhancement which the Council is addressing. Capacity to deliver objectives is a challenge for the Council, but partnerships and external funding are used effectively to improve services.
- 5 In our recent inspection we concluded that overall, planning services at Malvern Hills District Council are 'fair' with 'promising' prospects for improvement.

## Other accounts and governance issues

- 6 The Council has continued to improve the production of its annual accounts. The audit was substantially complete by 30th August which is a significant achievement for the Council. We gave an unqualified opinion on the accounts. This was given on 6 December owing to work to establish the reason for the Item A Adjustment (an adjustment between the old and new capital financing systems) of £1.226 million.
- 7 The Council has made significant improvements in budgetary control and asset management over the last year.

- 8 The Council needs to make more progress on several internal control issues. In particular, risk management, the process to produce the Statement of Internal Control and arrangements to ensure probity and propriety.
- 9 The overall financial position of the Council was sound at the 31 March 2006, with the accounts showing a £111k under spend and £1.4m of balances. The Council has a good historical track record of keeping expenditure within budget.
- 10 The realisation of shared services benefits represents a significant risk to the Council and needs to be closely monitored.

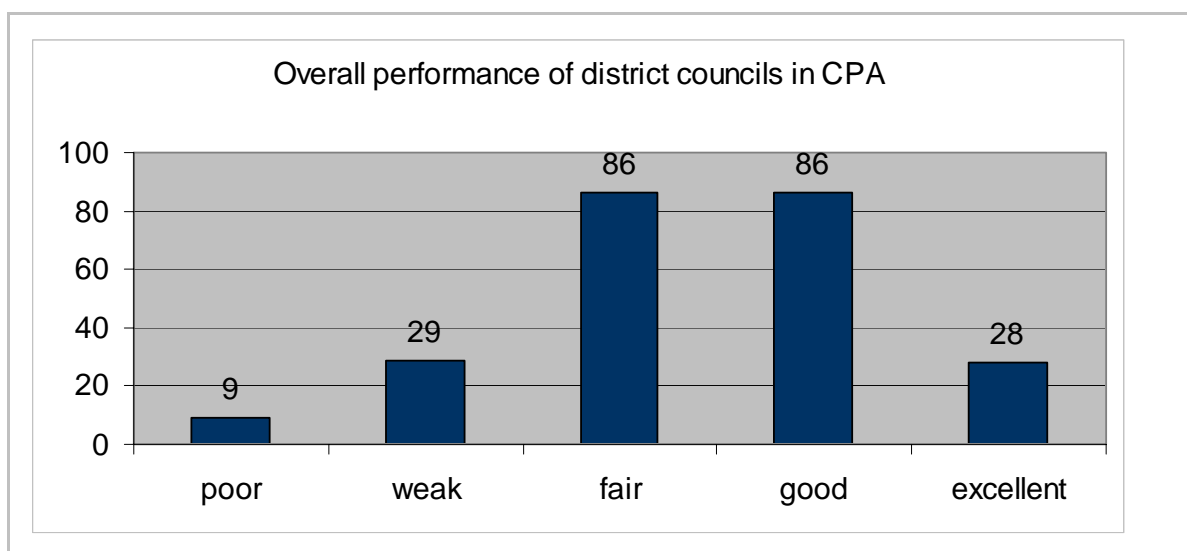
## **Action needed by the Council**

- 11 Members need to take the following actions.
  - Ensure information on service cost comparisons is provided and improvements in performance management continue to be embedded.
  - Continue to improve the delivery of new affordable homes.
  - Continue to strengthen the Council's approach to diversity and achieve level two of the Equality Standard in 2007.
  - Continue to pay attention to capacity issues such as reducing sickness absence.
  - Ensure capacity in the Planning Service is sustained to continue to develop the service and implement systems to improve the value for money of the service.
  - Develop Internal Control arrangements focusing particularly on risk management, the annual Statement of Internal Control and probity and propriety arrangements.
  - The Council needs to ensure that the capital programme is realistic and achievable.
  - Evaluate whether the new Shared Services arrangement for revenues and benefits can deliver the planned efficiencies without compromising service delivery and ensure that these efficiencies are delivered.

## How is Malvern Hills District Council performing?

- 12 Malvern Hills District Council was assessed as 'fair' in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now starting to update these 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

- 13 Overall, the Council has improved the delivery of its services. Service improvement is better than average and costs are rising less than in other Councils. There has been mixed progress in implementing improvement plans. In waste collection and recycling, performance has improved, but there has been slow progress in town centre enhancement which the Council is addressing. Capacity to deliver objectives is a challenge for the Council, but partnerships and external funding are used effectively to improve services.

## **Evidence of the Council improving outcomes**

- 14** Council services are improving, relative to other councils. Using a sample of best value performance indicators (BVPIs) published by the Audit Commission, 63 per cent of indicators improved in 2005/06. This is above the average improvement for all other District Councils of 58 per cent. 36 per cent of BVPIs are in the best quartile, compared to the national average of 31 per cent but 53 per cent are below the median and 25 per cent are in the bottom quartile.
- 15** Performance in the Council's six priority areas (recycling; affordable housing; community health and wellbeing; town centre enhancement; street scene/cleanliness; and local transport) has been generally good except in relation to affordable housing completions and acquisitions which were poor in relation to other District Councils and town centre enhancement where there is little evidence of improved outcomes.
- 16** The Council's recycling service is delivering best quartile performance for household waste collection and the percentage of households served by a kerbside collection of recyclables. Its own data indicates that it has increased its recycling performance to 24 per cent through improvements in its kerbside collection service and has increased the percentage of households participating in recycling to 83 per cent. The Council has a good track record of minimising the amount of household waste collected, delivering best quartile performance in 2004/05 and 2005/06.
- 17** Considerable investment in developing affordable housing is starting to deliver tangible results in the form of new homes. Despite several initiatives being completed and a clear commitment to improve, the Council was in the worst quartile for affordable housing completions or acquisitions in 2005/06. The Council is successfully using the planning service to apply Supplementary Planning Guidance on affordable housing through negotiations with developers. It has signed section 106 agreements in respect of new affordable housing schemes at North Site, Malvern; Lidl site Worcester Road, Malvern; Rushwick ('rural exceptions site'); Great Witley; Pensmill, Eardiston; and North End Lane, Malvern. Council initiatives to reduce homelessness have achieved a reduction in the number of homeless applications and average length of stay in both bed and breakfast, and hostel accommodation are good.
- 18** The Council is improving initiatives that promote community health and well-being. It has, for example; improved take up of concessionary pricing in its leisure facilities, used £16,000 of the current year's additional priorities funding to bring in a further £45,000 funding from Sport England to help fund sports activities and work with young people in the district to address issues with youth and has extended its 'exercise on referral' programme. This has enabled the Council to address anti-social behaviour and promote health improvement.

- 19 Progress on town centre enhancement is limited. The Council has facilitated improvement in a number of areas, including reducing empty shops and charity shops and refurbishing WCs. However, there continues to be a lack of progress on upgrading the town centre infrastructure. The Council recognises that its current approach is unlikely to be successful and intend to change its approach and focus on developing relations with the public, private and voluntary sectors.
- 20 The Council has made good progress on its street scene and cleanliness. It has established a Street Scene Team that has responsibility for a range of tasks, including litter control, graffiti and anti-social behaviour, and is accredited by West Mercia Constabulary as a Community Safety Scheme. This team has been a major determinant in reducing litter and graffiti, especially in identifying and tackling 'hotspots'. The Council's own figures show that it reduced the percentage of land littered to a significant or heavy extent from 14 per cent in 2004/05 to 9 per cent in 2005/06.
- 21 Working in partnership, the Council has contributed to an improvement in local transport. It introduced a revised concessionary travel scheme for older people and people with a disability in April 2006 and has increased the percentage of eligible residents who take up their entitlement to concessionary travel.
- 22 The Council is addressing diversity. It is undertaking equality impact assessments and has established a disability equality scheme in partnership with local disability groups. It is currently only at level 1 of the equality standard for local government, but has plans in place that are designed to achieve level 2 in June 2007.
- 23 Overall costs compare well with other Councils and are broadly in line with service delivery, performance and corporate priorities. Revenue expenditure is about average for the region and below average nationally. Council tax levels are generally average regionally and nationally. The link between service delivery and cost, taking local factors into account, is broadly satisfactory and our recent use of resources assessment judged the Council to be delivering adequate value for money.

### **Progress against improvement plans**

- 24 The Council has a robust framework of improvement plans in place. The Council Plan incorporates the Council's Priorities for Action (the CPA improvement plan) and its plans for implementing Council priorities and corporate initiatives. Plans are clearly linked through Corporate Plan and Management Plans to Personal Plans. Council priorities and corporate initiatives are reviewed monthly by the relevant portfolio holder and responsible senior manager and progress is reported on a quarterly basis to the Quarterly Performance Forum. Action and resources are focussed on areas in need of improvement and although there is some slippage this is managed via the Quarterly Performance Board.



- 25 Overall, solid progress is being achieved on the CPA improvement plan. The Council use the medium-term financial planning process to release funds for reinvestment to deliver its priorities and objectives. This provides the framework within which revenue and capital spending decisions are made over a three-year time period.
- 26 The Council has made sound progress on leading and involving local communities. It is working with partner organisations from the public, private, voluntary and community sectors within the District to produce the draft sustainable community strategy for consultation. It is actively involved in the Worcestershire Hub and has established a number of Customer Service Centres. These provide a first point of contact for District and County Council enquiries and currently deal with some 90 per cent of contacts. The Council has established the Customer Focus Implementation Group, designed to review and improve business processes across the Council, ensuring that customers' needs are taken into account. It is working with Worcestershire County Council and others on the Malvern Hills Science Park to create jobs.
- 27 The Council has taken steps to achieve improvement in the value for money it delivers. It has established a Business Transformation Process that is based on Lean Services principles. This is designed to review all Council processes, using a Business Process Review Toolkit. Reviews have been undertaken in all Council areas, but not all processes have been reviewed and the potential for further efficiencies is unclear. Business Transformation Reviews have delivered Efficiency Gains (e.g. the Senior Management Review) and the Council is making good progress in improving ICT provision.
- 28 Good progress is being made in performance management. The Council has established a direct link between its Corporate Plan, Management Plans and Personal Plans, via the Performance Review and Development process. It uses the TEN performance management system (a live online database) to monitor progress of individual plans and objectives and uses Prince2 project management for all major projects. The Council undertook its third European Foundation for Quality Management (EFQM) self-assessment during 2006 and recorded an improved rating. Members are now more involved in performance through the new Quarterly Performance Board. Capacity to improve is however compromised by human resourcing issues related to the management of high sickness levels.
- 29 Our inspection of the planning service in July 2006 found that the Council is providing a 'fair' one-star planning service that has promising prospects for improvement. This reflects improvements that have been made in planning performance from a relatively low base. Since then there has been sound progress in implementing our recommendations, however the impact on improved service performance has yet to be demonstrated.
- 30 The Council is making good progress in the delivery of its benefits service. It is working with other Worcestershire districts to negotiate a shared services agreement with the aim of providing a joint revenues and benefits service. The Council has reached agreement with two other councils and intends to proceed on this basis whilst continuing discussions with the remaining councils.

## Planning Service inspection

- 31 We conducted an inspection of the Council's Planning Service, and reported our findings in July 2006.
- 32 We concluded that overall, planning services at Malvern Hills District Council are 'fair' with 'promising' prospects for improvement.
- 33 We looked at the delivery of the following services, Strategic Planning, Development Control and Enforcement and Building Control and how they contribute to the strategic aims for the planning of the environment.
- 34 The Council uses a variety of methods to engage with the public in preparation of its planning policy and the extent of community support for the Local Plan 1996/2011 was the highest in Worcestershire. Access to services and information by the public, via telephone, e-mail, on-line or in person is generally good. Whilst the adopted local plans are out-of-date, the 'new' local plan, adopted last year, clearly contains policies that reflect national planning priorities and has regard for the West Midlands Regional Spatial Strategy. The Council is successfully protecting the local environment through the development and application of planning policies on sustainability, design and conservation and it is also securing a variety of developer contributions for local benefit. The service has recently clarified and publicised the level of service customers can expect.
- 35 However, there has been limited systematic ongoing engagement with users of the planning service and it is not engaging or consulting effectively with some hard-to-reach groups to ensure their needs are being met.
- 36 The Council has failed to meet its targets for affordable housing. Whilst it is successfully using the Planning service to apply the SPG on affordable housing through negotiations with developers and this has already delivered some affordable homes, the Council has yet to meet its affordable housing targets.
- 37 The Council is not demonstrating value for money in its planning services, whilst building control compares well to the private sector, over the last three years, planning services are relatively high cost, with performance below national targets, poor customer focus and satisfaction. In addition, current planning committee arrangements are not helping support efficient use of resources.
- 38 Investment in the service has resulted in improved planning performance over the past year, mainly related to application turnaround and enforcement activity. Whilst this has been from a low base when compared to other councils, it is significant for Malvern as it is now achieving government standards for speed of determining planning decisions which is a national priority.
- 39 The Council has an improvement plan in place to address weaknesses in the planning service and this has already begun to deliver improvements.
- 40 Performance management is supporting the delivery of the plan and improvements in key planning performance indicators. The planning service is taking action to aid the Council in meeting its affordable housing.

- 41 However, the Council has not identified how it will sustain the improved capacity and the service remains at risk of having problems again in the future. Performance information does not allow the contribution of the service to corporate priorities or value for money to be fully assessed and a number of initiatives are new, not yet embedded in the service and their effectiveness has yet to be established.

## Performance information

- 42 The Audit Commission approach to the audit of statutory performance information changed this year, with a 'lighter touch' being applied. This meant that we reviewed your overall management arrangements to develop the quality of data and only tested a limited number of performance indicators. There were five themes for us to consider as part of our work on Data Quality; Governance and Leadership, Policies, Systems and Processes, People and Skills and Data Use.
- 43 We assessed the Council as performing well, with appropriate individuals in place and clear responsibilities. Also at the time of the audit (July 2006) the Council was introducing further improvements to its performance management system. However, there are still a number of areas where further improvements can be made. In particular, there was no formal Data Quality Policy in place, policies and procedures were not available to all staff, and there were weaknesses around data sharing and testing of Third Party data.

## Financial management and value for money

- 44 As your appointed auditor I have reported separately to your Audit Committee on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
  - a conclusion on your VFM arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 45 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 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).
- 46 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

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**Table 1**

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

*(Note: 1=lowest, 4=highest)*

- 47 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

## **Financial reporting – audit of 2005/06 accounts**

- 48 The audit of the accounts went smoothly. There was a further improvement in working papers and officers were responsive to audit queries. The audit was substantially complete by 30th August which is a significant achievement for the Council. The Council is keen to further improve this important process and, with that in mind, we will discuss any further improvements which can be made with officers.
- 49 The most significant issue was the unexplained difference in Adjustment A (an adjustment between the old and new capital financing systems) of £1.226 million. This difference could affect the size of the Council's minimum revenue provision, should it become a borrowing authority. Following discussions with the Director of Resources, it is clear that no further information is available to resolve the difference but the Director of Resources has agreed to take account of this in future decisions.
- 50 There were no material changes to the Statements presented for audit.

## **Financial management**

- 51 Our overall conclusion was that the arrangements in place met the minimum standard.
- 52 Budget setting, control and monitoring have improved significantly. The Council went through a robust and challenging process in setting the budget for 2006/07. This has been backed up by good monitoring and reporting. Linkages between the Council Plan, Medium Term Financial Plan and annual budget have also improved.
- 53 The Council acknowledged that reporting on efficiency targets and savings needs to be improved. This is particularly true where efficiency programmes span several different departments or services.
- 54 The Council has also made good progress on the Property Strategy, but has been unable to produce an up to date Asset Management Plan or Corporate Capital Strategy. Considerable work has been put in to resolving the issue of Council accommodation in Malvern, and a number of properties are to be disposed of.
- 55 There has again been significant slippage on the capital programme. At the end of the third quarter of 2006/07 only £2.2m of the budget of £7.5m had been spent. In 2005/06 the capital programme was budgeted at £4.754m, but expenditure amounted to £2.536m. The Council needs to ensure that the capital programme is realistic and achievable.

## Financial standing

- 56 We assessed the Council's financial standing as 'performing well'. This reflected the improvements made since our previous assessment. In particular, the strong performance in collection of Council Tax and Business Rates.
- 57 As at 31 March 2006, the Council had reserves of £1.4m, including over £1m of general fund reserves, in accordance with Council policy. The under-spending against budget in 2005/06 amounted to £111k.
- 58 The Council's Pension Scheme liability (the amount liabilities exceeded assets) at the 31 March 2006 was £14m. Though a small decrease from 2005, the level of this deficit is a cause for concern as the Council is, like most other councils, not currently in a position to meet its future pension liabilities for its workforce.

## Systems of internal control

- 59 The Council's systems of internal control meet the minimum requirements for the Use of Resources assessment.
- 60 However, we identified very few improvements since last year, and the Council has to address several areas in order to achieve a higher rating in this area.
- 61 Our review of risk management identified that the Council has an online risk register which has been populated and risks assessed and assigned. However, we could find no evidence of the register being updated, nor of any updates being reported to Members. It is crucial that the risk register is updated frequently, and that Corporate risks are reported regularly to Members.
- 62 Internal Controls were adequate, although the Council needs to ensure that reconciliations between the General Ledger and all major feeder systems are completed on a timely basis throughout the year.
- 63 The main weaknesses in this area surrounded the process to produce the Statement of Internal Control (SIC). Heads of Service had provided year end assurance statements this year, but we continued to assess this area as below minimum requirements.
- 64 There were significant weaknesses in the process. Members were not adequately involved or given adequate supporting documentation, and this prevented informed debate. As a result, the initial SIC presented for audit did not include any weaknesses or breaches in control.
- 65 We also considered the arrangements in place to ensure probity and propriety. We found that the Council has not implemented previous recommendations in a timely manner, concerning whistle blowing and the declarations of gifts and hospitality.

- 66 The Council can strengthen the system for gifts and hospitality in a number of ways:
- requiring line manager approval before acceptance of any offer;
  - include declined offers and any contracts the other party may be interested in;
  - all staff to declare any interests, including a 'Nil' declaration; and
  - the Monitoring Officer to review all declarations of interest.
- 67 The Council also needs to provide ethics training for all staff and Members.
- 68 The Council has a good internal audit service provided in partnership with Worcester City. The effectiveness of this can be further improved by reporting the degree of assurance provided by each review to senior officers and the Audit Committee and formally reporting back to each Audit Committee meeting on the completion of previous internal audit recommendations.

## Value for money

- 69 We considered both the Council's achievement of value for money and the arrangements to manage and improve value for money. Overall, we concluded that both adequate achievement and adequate arrangements are demonstrated. Both areas have improved since last year.
- 70 Overall costs compare well with other councils and are broadly commensurate with service delivery - revenue expenditure is about average for the region and below average nationally. The link between service delivery and cost, taking local factors in account, is broadly satisfactory. There are low costs compared with the family group and mixed but improving performance. The Council needs to continue to improve performance on affordable housing and to ensure that the benefits of improved procurement are embedded throughout the entire Council. The Council also needs to continue to embed a VFM culture and demonstrate equity of service provision across the District.

## Other work

### Grant Claims

- 71 The Council has two large grant claims - Housing and Council Tax Benefit and National Non-Domestic Rates. The arrangements and controls in place for these are good. The Council also has a small number of much lower value grant claims, but is not always aware that these require audit. The Council needs to ensure that adequate arrangements are made where Audit Commission certification is required.

## Information Technology

72 We reported on your Information Technology (IT) arrangements in April 2006. We noted:

*'There have been some significant positive changes in the past year, including the investment of additional resources and the restructuring of ICT Services. The Council's ICT infrastructure has improved but there is some way to go before all business needs are effectively supported'.*

73 The main issues we noted at that time were:

- slippage on capital programme for IT;
- no IT strategy;
- appropriate resourcing of IT dept compromised through use of short-term contracts;
- robust information security arrangements not in place;
- no business continuity plans; and
- no performance management framework for delivery of IT services to users.

74 An Action Plan was approved by the Audit Committee in June 2006, and progress reported in September 2006. An IT Strategy and Information Management Strategy have been approved. Business Continuity Plans have been progressed and are now being considered by the Emergency Planning Officers at Worcestershire County Council. Key Performance Indicators have been developed and will be used from 2007/08.

75 We have previously commented on the slippage of the capital programme overall, and this applies to IT as well. Indications for 2006/07 are that this slippage is continuing.

## Shared Services

76 The Council is committed to the Shared Services arrangement for the provision of Revenues and Benefits services with two other local District Councils. The Councils are re-working the financial model to determine the costs and savings of a smaller shared service than previously planned. The anticipated savings from the Shared Services arrangement are a key factor in both the Medium Term Financial Plan and the Property Strategy. The realisation of these benefits represents a significant risk to the Council and needs to be closely monitored.



## Conclusion

- 77 This letter has been discussed and agreed with the Chief Executive and Director of Resources. A copy of the letter will be presented at the Audit Committee on 23 April 2007.
- 78 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

## Availability of this letter

- 79 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Elizabeth Cave**

**District Auditor and Relationship Manager**