

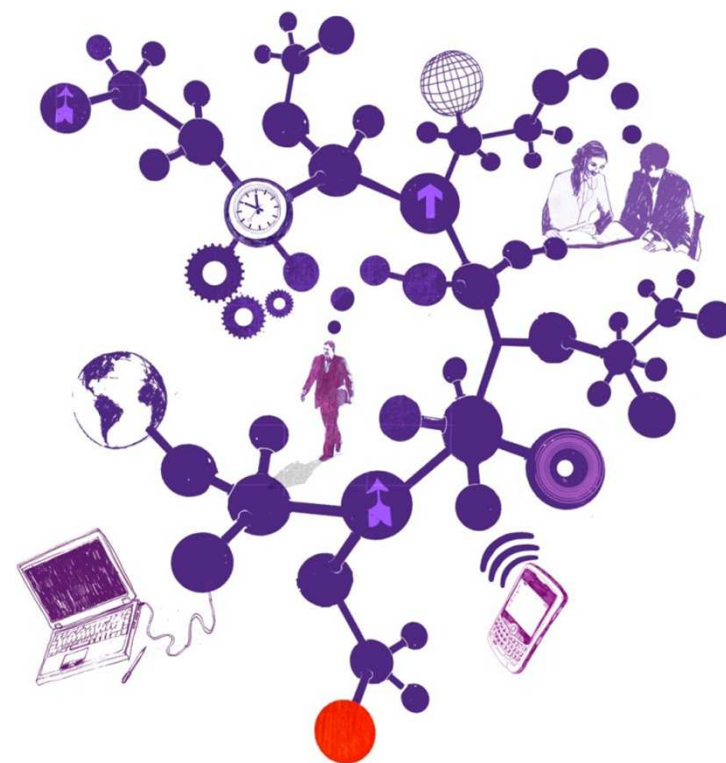
# Review of Exeter City Council's Arrangements for Securing Financial Resilience

Year ended 31 March 2013

September 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

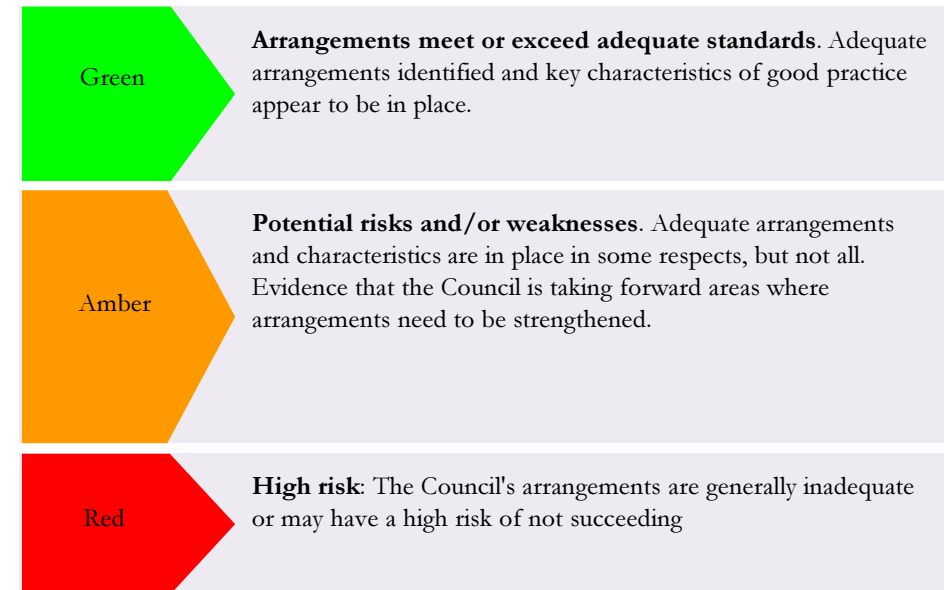
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

### Overall conclusion

The Council has adequate arrangements in place to deliver financial resilience.

We have used a red/amber/green (RAG) rating with the following definitions.



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# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

### Local Context



Exeter is an historic city in the county of Devon with an estimated population of 117,800 citizens. Exeter is seen as an increasingly attractive place to do business with major organisations such as the Met Office relocating to the area a number of years ago. More recently, the John Lewis Partnership opened a new store in 2012 and the recent announcement that Ikea will open a store in Exeter reinforces the City's status as a major regional shopping destination. The City also good rail, road and air transport links.

National spending announcements have already required significant cuts to financial support from Government. For Exeter, this has resulted in reductions in formula grant of 26.9% between 2010/11 and 2013/14. The Council's Executive approved its budget strategy in February 2013. This strategy set out the likely level of available resources and identified spending plans and pressures.

The medium term financial plan indicated the Council is planning to increase its revenue budget from £15.08m in 2012/13 to £16.22m by 2016/17 after taking account of planned cumulative savings over that period of £5.69m.



# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Key Indicators of Performance</b>	<ul style="list-style-type: none"><li>• The Council delivered an underspend of £0.354m in a year where savings of £1m have been achieved.</li><li>• In comparison to the Audit Commission's nearest neighbours, the Council has comparable levels of borrowing measured against its ability to raise council tax and also measured against its long term asset base.</li><li>• The Council as low liquidity levels compared to its nearest neighbours. It will need to monitor its liquidity levels closely during the coming periods to ensure financial resilience is maintained.</li><li>• The Council also has low levels of usable reserves compared to its peer group. This means that Exeter has set aside smaller amounts for future policy purposes or to cover contingencies than its peers. We note that useable reserves did increase in 2012/13 by £0.3m.</li><li>• Average sickness absence rates are reducing for the Council and are marginally below the local government comparator. This remains an area of focus for the Council.</li></ul>	 <b>Green</b>
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"><li>• The Council has a robust process in place for determining its medium term financial plan and annual budget.</li><li>• The Council has effective arrangements for ensuring the MTFP and budgets are kept under regular review and are responsive to changing circumstances and emerging financial risks.</li><li>• We reported last year that, whilst the Council had a good understanding of the key assumptions used during the financial planning process, there was scope to improve the level of sensitivity analysis and scenario planning within the MTFP to assess the potential impact of changes in key economic factors and assumptions. The Council's strategic planning now includes modelling on different scenarios.</li></ul>	 <b>Green</b>

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Governance</b>	<ul style="list-style-type: none"><li>• The Council has strong financial stewardship arrangements in place at both directorate and committee level.</li><li>• There is an appropriate level of senior management and member level engagement in the financial planning.</li><li>• Last year we reported that there was not a routine mechanism for monitoring and understanding unit costs within services. The Council acknowledges this is an area for development and plans to work with a consultants going forward, whom provide tailored benchmarking services.</li><li>• The Council has historically managed its budgets well and delivered good financial performance. Timely, informative budget information is provided to officers and members, highlighting those areas where issues have been identified and action needed.</li></ul>	 Green
<b>Financial Control</b>	<ul style="list-style-type: none"><li>• The Council has a well established budget setting process that encourages ownership from budget holders supported by appropriate training for officers and members. The Council has a good track record in managing budgets on a service by service basis.</li><li>• Delivery of in-year savings has been managed effectively, enabling the Council to achieve the planned £1.0m savings which supported the delivery of an underspend of £0.354m on the General Fund budget.</li><li>• We conclude that overall, the Council has good systems of internal control including its arrangements for Internal Audit. Although some scope for improvement was identified following our interim audit, particularly in relation to the Council's arrangements for risk management, these have been appropriately acted up.</li><li>• We recommend that a benefits realisation review should be undertaken following the restructuring exercise to establish whether the desired outcomes have been achieved with specific consideration of how performance management is developing.</li><li>• New corporate arrangements for procurement and contract monitoring are now being implemented following internal review.</li></ul>	 Green



# Executive Summary

## Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Key Indicators of Performance</b>	Liquidity - The Council will need to monitor its liquidity levels closely during coming periods to ensure financial resilience is maintained.	Acting Assistant Director Finance	On-going	Agreed – the Council is mindful that its policy reduces the liquidity of the Balance Sheet, however, it is satisfied that funding is available via PWLB if required to ensure all future liabilities are met.
<b>Strategic Financial Planning</b>	None			
<b>Financial Governance</b>	Benchmarking – The Council should ensure it obtains and uses comparative information on unit costs to inform decision making.	Acting Assistant Director Finance	October 2013	Agreed - the Council has purchased a benchmarking report on unit costs which will be fed into the planning process.
<b>Financial Control</b>	Risk management – The Council should confirm the revised arrangements for managing corporate and service-based risks are embedded and operating effectively	Corporate Manager Policy	December 2013	Agreed – updated risk management structure now in place and operational
	Procurement/contract registers – The Council should confirm the planned development of a more corporate approach to managing procurement and contract monitoring is implemented and reviewed for effectiveness.	Acting Assistant Director Finance	December 2013	Agreed - the new corporate approach has been agreed and will be implemented during the remainder of this year
	Organisational development – The Council should undertake a post-implementation review to establish whether the restructuring exercise is delivering the expected benefits and that a revised performance management framework has been developed to meet the requirements of the new arrangements.	Senior Management Team	On-going	Agreed – as reviews are completed they will be reviewed to ensure that they have met our objectives.

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# Key Indicators

## Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:



- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Cambridge City Council  
Carlisle City Council  
Cheltenham Borough Council  
City of Lincoln Council  
Colchester Borough Council  
Gloucester City Council  
Ipswich Borough Council  
Oxford City Council  
Preston City Council  
Rushmoor Borough Council  
Taunton Deane Borough Council  
Warwick District Council  
Watford Borough Council  
Worcester City Council  
Wyre Forest District Council




# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Performance Against Budgets: revenue &amp; capital</b>	<ul style="list-style-type: none"> <li>The Council underspent its 2012/13 General Fund net revenue budget by £0.354m. This is in the context of the Council realising the targeted level of savings of £1.0m which represents a good level of performance for the year.</li> <li>The Housing Revenue Account (HRA) reported an overall increase in working balances of £0.571m. Additionally, £2.270m is set aside in the Major Repairs Reserve to fund future capital expenditure in the HRA.</li> <li>Capital expenditure in the year the amounted to £15.9m compared with a revised approved programme of £18.1m. The actual expenditure during 2012/13 represents 88% of the total approved for the revised capital programme. Spending performance has improved over the prior year which was 81%.</li> </ul>	 <b>Green</b>
<b>Reserve Balances</b>	<ul style="list-style-type: none"> <li>Exeter's level of useable reserves is low compared to the comparator group being the equal second lowest at 0.07 as a proportion of its gross expenditure. This means that Exeter has set aside smaller amounts for future policy purposes or to cover contingencies than its peers.</li> <li>However, this ratio has improved from 0.05 in 2010/11 reflecting increases in the Housing Revenue Account reserve, the capital receipts reserve and earmarked reserves.</li> <li>The Council has reported useable reserves of £17.596m as at 31 March 2013, with £3.358m representing the General Fund balance. The General Fund balance represents 24.5% of the Council's net revenue budget for 2012/13 compared with 30.5% for 2011/12. The Medium Term Financial Plan forecasts a continued reduction in General Fund levels and is forecast to reduce to the Council's minimum recommended level of £2m by the end of 2016/17.</li> </ul>	 <b>Green</b>

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>Liquidity has reduced at Exeter from 1.8 in 2007 to 0.4 in 2011/12. The Council has the lowest levels of liquidity in its comparator group. The Council will need to monitor its liquidity levels closely during coming periods to ensure financial resilience is maintained.</li> <li>The Council Tax collection rate has decreased slightly in comparison with the previous year. The collection rate for 2012/13 was 97.3% and 97.4% in 2011/12. Sundry debtors over 30 days old have reduced over the year to £1.6m from £1.7m. The percentage of creditors paid within 30 days was 96.64% in 2011/12 and has slightly decreased in 2012/13 to 94.79%.</li> </ul>	 <b>Amber</b>
<b>Borrowing</b>	<ul style="list-style-type: none"> <li>Prior to the HRA self-financing settlement in 2011/12 the Council had no long term borrowing. The HRA reforms lead to the Council borrowing £56.9m from the Public Works Loan Board to finance its one-off settlement with the Department of Communities and Local Government.</li> <li>The Council has an average level of borrowing when compared against tax revenue for 2011/12.</li> <li>The Council has a slightly below average level of borrowing when compared against its long term assets.</li> </ul>	 <b>Green</b>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>Over the last five years to 31 March 2013 the Council has reduced its workforce from 960 employees in 2008 to 789 in 2013, representing a reduction of approaching 18%.</li> <li>Absence figures have fallen from 8.63 days per employee to 7.84 days in the last year. The average number of sickness absence days for local government workers is 8.0 days and so the Council's performance compares favourably.</li> </ul>	 <b>Green</b>

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# Strategic Financial Planning




## Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

# Strategic Financial Planning



## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Focus of the MTFP</b>	<ul style="list-style-type: none"> <li>The SR10 spending announcements have already required significant cuts to financial support from Government. For Exeter City Council this has resulted in reductions in formula grant of 26.9% between 2011/12 and 2013/14.</li> <li>The Council's Executive approved its budget strategy in February 2013. The strategy set out the likely level of available resources and identified spending pressures and also set out the revised Medium Term Financial Plan. This indicated that the Council would be able to increase its revenue budget by £1.143m between 2012/13 to 2016/17 after taking into account savings of £5.686m over the period.</li> <li>The Council agreed its 2013/14 revenue and capital budget in February 2013 following consultation and scrutiny.</li> </ul>	 <b>Green</b>
<b>Adequacy of planning assumptions</b>	<ul style="list-style-type: none"> <li>The Council is focused on delivery of the MTFP. The MTFP sets out the key assumptions that have been made for the 2013/14 budget year and the Council's rationale supporting these assumptions.</li> <li>Assumptions in future years of the MTFP are less well defined due to continuing uncertainties relating to the Government's spending plans in the coming years. However, the MTFP does highlight these uncertainties and the Council's arrangements to ensure that it mitigates these as well as possible.</li> </ul>	 <b>Green</b>
<b>Scope of the MTFP and links to annual planning</b>	<ul style="list-style-type: none"> <li>The Council ensures that there is a strategic approach to financial planning through the MTFP process. This is updated on a regular basis.</li> <li>The key elements of the MTFP form part of the Council's budget strategy that is approved by Council each year.</li> <li>Last year our discussions with officers indicated that, while individual services undertake some modelling of demand for services to understand the impact on future income and spending levels, the information was not consolidated within the MTFP. This potentially limited Members' ability to understand in detail all the challenges the Council faces over a period of time. Strategic financial planning now includes scenario planning which models the impact of changes in key assumptions on future finances.</li> </ul>	 <b>Green</b>



# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Review processes</b>	<ul style="list-style-type: none"><li>• The Council has good arrangements for keeping both the MTFP and annual budget under review.</li><li>• Regular updates are provided to the Scrutiny Committee – Resources and both the Executive and Council on delivery against plan, anticipated risks and proposed actions where appropriate.</li><li>• The Council has a good track record of delivering its financial plans.</li></ul>	 <b>Green</b>
<b>Responsiveness of the Plan</b>	<ul style="list-style-type: none"><li>• There is a clear recognition by management that economic factors and assumptions may change and the MTFP, budget strategy and in-year budget monitoring arrangements are regularly refreshed to keep up to date with these changes.</li><li>• The Council ensures that the plan remains responsive which recognises the scale of the financial challenges faced and the uncertainty that remains within the timeframe of the plan.</li><li>• The predominantly annualised approach to financial planning, with the use of reserves and achieving budget targets, has served the Council well historically. However, the medium term financial uncertainties provide challenges to future planning and the Council will need to ensure that its strategic financial planning process continues to be fit for purpose to support it in the medium to longer term.</li><li>• The Council issued a revised Corporate Plan 2012/14 'Building a sustainable city' which includes the highlights of the MTFP and the scale of the challenges that the Council faces in the delivery of its priorities for citizens.</li></ul>	 <b>Green</b>

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# Financial Governance

## Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

### Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

### Engagement




- There is engagement with stakeholders including budget consultations.

### Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).


# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Understanding the Financial Environment</b>	<ul style="list-style-type: none"> <li>The Council has strong financial stewardship arrangements in place at both committee and directorate level. Reports are prepared for the three respective Scrutiny Committees on a quarterly basis to update them on financial performance relevant to their directorate. Variations to budget are highlighted and actions are discussed where necessary.</li> <li>Heads of Service and budget holders are well supported by the service accountants with the central finance team. Monthly meetings are held with budget holders to discuss service performance and actions required to address issues identified.</li> </ul>	 <b>Green</b>
<b>Executive and Member Engagement</b>	<ul style="list-style-type: none"> <li>There remains an appropriate level of senior manager and Member level engagement in the financial management process via the established budget cycle process.</li> <li>In previous years the Council has engaged well with its other stakeholders. The Council undertook a detailed budget consultation exercise in 2012/13 to which approximately 1,500 stakeholders took part. The consultation included a survey printed in the Express and Echo local newspaper which was also made available online together with use of the Council's Wavelength survey panel.</li> </ul>	 <b>Green</b>
<b>Overview for controls over key cost categories</b>	<ul style="list-style-type: none"> <li>Last year we reported that there was not a routine mechanism for monitoring and understanding unit costs within services. The Council acknowledges this is an area for development going forward.</li> <li>In our previous audit we concluded the Council was taking action to address the issues we raised relating to controls within the creditors system. Further action has been taken as part of the Council's implementation of the upgrade to e-financials.</li> <li>Our 2011/12 Audit Findings Report highlighted some inconsistencies in the allocation of service costs to their appropriate headings in accordance with the Service Code of Practice (SerCOP) compared to previous years. These misstatements arose due to the manual process that is involved in the allocation of costs and were corrected following the audit. Our audit this year has not identified any issues in this area.</li> </ul>	 <b>Amber</b>

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Budget reporting: revenue and capital</b>	<ul style="list-style-type: none"><li>• Quarterly stewardship reports are provided on a timely basis to each service Scrutiny Committee setting out the current and forecast outturn positions. In addition, the Scrutiny Committee – Resources receives a summary position of the financial outturn for the whole of the Council. This is then subsequently considered by the Executive and full Council.</li><li>• These reports highlight matters on an exception basis allowing corrective action to be taken in budget areas where significant variances have been identified. In addition, information is provided on performance on the Housing Revenue Account, delivery of projects within the capital programme and the Council's performance in debtors collection and creditor payments. The anticipated impact on reserves and balances are also forecast.</li><li>• The Scrutiny Committee – Resources also receives reports, twice a year, on the Council's progress in achieving its savings plans.</li><li>• The Council has clear policies and procedures in place to support its financial monitoring process and historically the Council has managed its budgets well and delivered good financial performance.</li><li>• The 2012/13 General Fund net revenue budget underspent by £0.354M based on the provisional outturn. This followed an underspend of £0.092M last year.</li><li>• The Housing Revenue Account (HRA) reported an overall increase in working balances of £0.571M. Last year there was an increase in the working balance of £1.875M</li><li>• Capital expenditure in the year the amounted to £15.9M compared with a revised approved programme of £18.1M. The actual expenditure during 2012/13 represents 88% of the total approved for the revised capital programme. Spending performance has improved over the prior year which was 81%.</li></ul>	 <b>Green</b>

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# Financial Control

## **Key characteristics of effective financial control**

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

### **Budget setting and budget monitoring**

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

### **Savings Plans**

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

### **Financial Systems**

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

### **Finance Department**




- The capacity and capability of the Finance Department is fit for purpose.

### **Internal Control**

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

# Financial Control

## Internal arrangements



Area of focus	Summary observations	Assessment
<b>Budget setting and monitoring - revenue and capital</b>	<ul style="list-style-type: none"> <li>The Council has well established budget setting processes that encourage ownership from budget holders and appropriate training is provided to officers and Members. The Council has a good track record in managing budgets on a service by service basis.</li> <li>The Council has a clear budget timetable in place to support the production of its annual budgets.</li> <li>Budget holders are held to account on service budget performance and are required to report on expected outturn on a monthly basis.</li> </ul>	 <b>Green</b>
<b>Performance against Savings Plans</b>	<ul style="list-style-type: none"> <li>The Council has a good track record in delivering the savings required to achieve a balanced budget. Last year we reported that the Council had improved its arrangements in this area as it had implemented our recommendation that delivery of savings plans should be reported to Members twice a year via the Scrutiny Committee - Resources.</li> <li>Reporting to Members shows the Council identified £1.0m savings in setting the 2012/13 budget (2011/12 £2.4m). Additionally, the Council delivered an underspend on its General Fund budget of £0.354m in 2012/13. Delivery in 2011/12 was £2.181m, representing 90% of the planned total. Previously, where required, clear explanations have been provided where savings have not been achieved.</li> <li>Savings plans for 2013/14 are £2.19m. The Council has developed plans for delivering this total. Going forward the Council plans to enhance its reporting on progress in delivering savings plans with updates to each Scrutiny Committee during the year and also monthly reporting to SMT.</li> </ul>	 <b>Green</b>
<b>Key Financial Accounting Systems</b>	<ul style="list-style-type: none"> <li>Our audit work has not identified any significant concerns with the reliability of the key financial accounting systems.</li> <li>Last year we made some recommendations about the work of Internal Audit to help strengthen the internal control environment.</li> <li>The Head of Internal Audit Opinion for 2012/13 highlights some 'areas of concern' but overall concluded that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2013.'</li> </ul>	 <b>Green</b>



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# Financial Control



## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Finance Department Resourcing</b>	<ul style="list-style-type: none"><li>• The Council has a well established and experienced finance team which historically has operated effectively.</li><li>• In April 2013 the Assistant Director Finance left the Council and the Finance Manager has since taken on the role of Acting Assistant Director Finance.</li><li>• The Council is continuing to consider the long term structure of the finance team. At this point we are comfortable that the Council has an appropriate level of resourcing in the finance department and the team has continued to deliver its expected services to the Council.</li></ul>	 Green
<b>Internal audit arrangements</b>	<ul style="list-style-type: none"><li>• Last year we reviewed Internal Audit's overall arrangements against the CIPFA Code of Practice, concluding that the Service continues to provide an independent and satisfactory service to the Council and we were able to take assurance from its work in contributing to the internal control environment at the Council.</li><li>• Our prior year interim report included a number of recommendations. We have followed up these recommendations as part of our interim work by reviewing two of Internal Audit files: Payroll and Housing Tenancy.</li><li>• We concluded that Internal Audit has implemented a number of improvements to its working practices following our review. We identified some areas where arrangements could be strengthened further and agreed additional recommendations with Internal Audit.</li></ul>	 Green

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# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>External Audit arrangements</b>	<ul style="list-style-type: none"><li>• Last year we issued an unqualified audit opinion and an unqualified value for money conclusion.</li><li>• Historically the Council has been responsive to external audit recommendations. This year we have raised new issues in our audit plan, which also included our interim audit findings:<ul style="list-style-type: none"><li>• Risk register – we identified that the corporate risk management process was not operating effectively (see observations below).</li><li>• Procurement review/contracts register – we focused on the need to develop a more corporate approach to procurement and contract monitoring. Going forward, the Council is developing this area through enhanced corporate arrangements.</li><li>• Organisational development and performance management – we focused on whether the expected benefits of the restructuring were being delivered and whether a new approach to performance management was being developed in response to the restructured service arrangements. The Council accepts there is scope to confirm the expected benefits are being achieved and the new performance management framework is embedded and fit for purpose.</li></ul></li></ul>	 Amber
<b>Assurance framework/risk management</b>	<ul style="list-style-type: none"><li>• Our interim audit in March 2013 considered the Council's assurance framework. We reviewed the latest risk register available at that point and found that while the Council did have a risk register in place, this had not been updated since March 2012. Without an up to date risk register in place there is a risk that reporting is insufficient to ensure 'Those Charged With Governance' are fully informed of the current status of the risks to the Council.</li><li>• As the Council has been in a process of significant restructuring process there has been the potential for significant emerging risks, consequently such registers are important to the control environment. Whilst operational risk registers are in place for some services, this is not consistent across the organisation as a whole and is currently under review.</li><li>• Following our interim audit we recommended the corporate risk register was refreshed, formally reported and thereafter regularly brought before the Scrutiny Committee. – Resources (which is now superseded by the Audit and Governance Committee). We also recommended that operational service-focused risk registers were introduced across the organisation. Since our interim audit new arrangements have been established going forward so that there is an enhanced corporate focus on risk management, including quarterly reporting to the Audit and Governance Committee.</li></ul>	 Amber

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**1 Executive Summary**

**2 Key Indicators**

**3 Strategic Financial Planning**

**4 Financial Governance**

**5 Financial Control**

**Appendix - Key indicators of financial performance**

# Key Indicators of Financial Performance

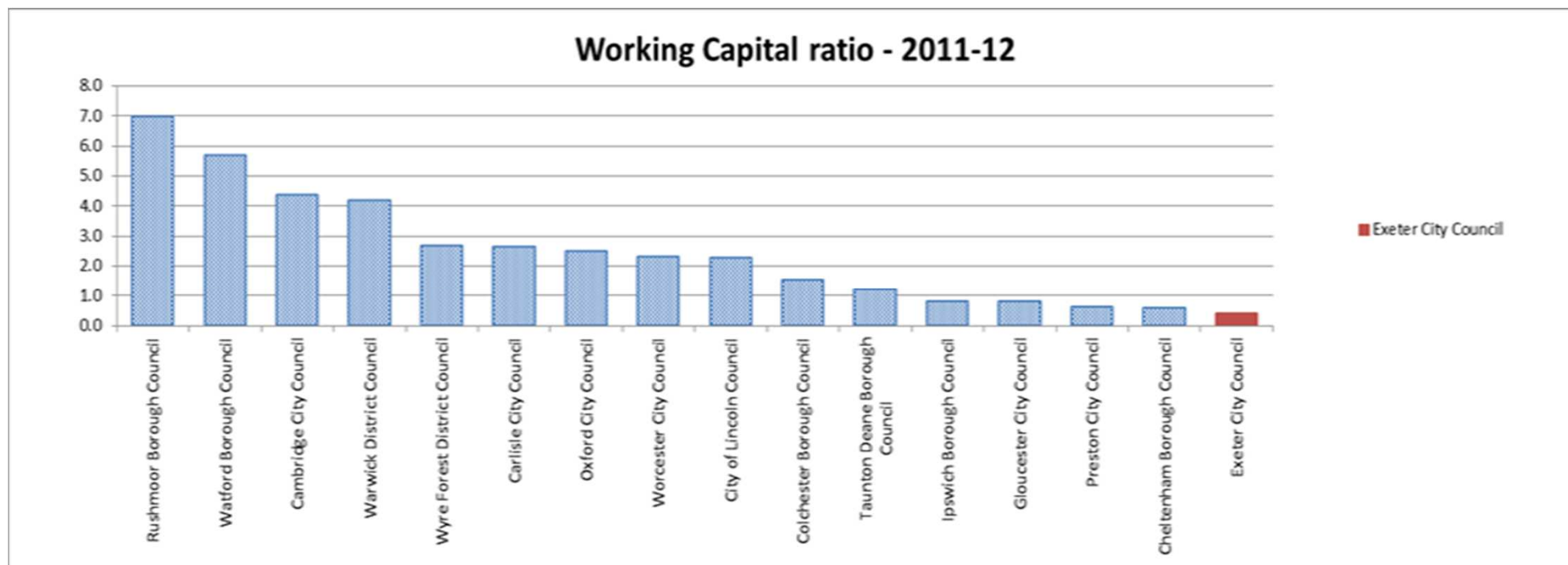
## Working capital – benchmarked

### Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

### Findings

Exeter's working capital ratio is significantly below the preferred level of 2:1 at 0.42:1 and is also very low compared with the Council's statistical nearest neighbour group (i.e. those considered most like the Council), being the lowest of the comparator group. The Council's low level of liquidity potentially increases the risk of liquidity problems arising.



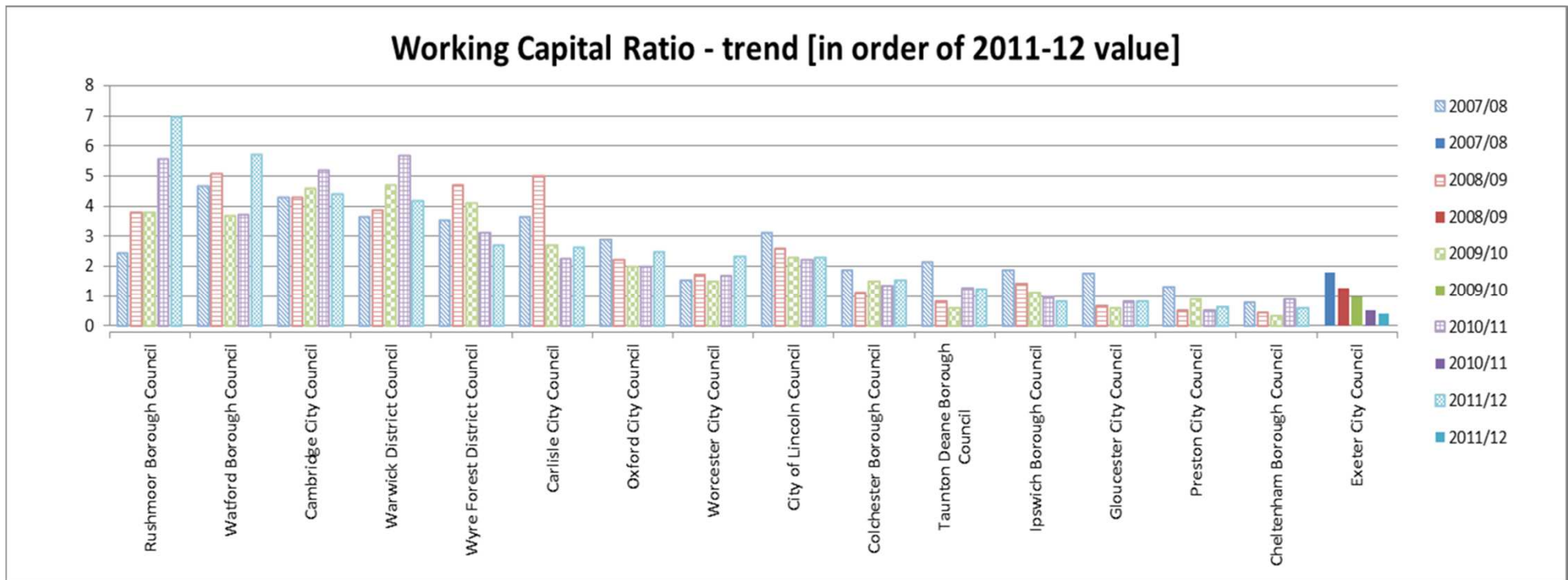
Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

## Working capital - trend

### Findings

Trend analysis for working capital demonstrates that Exeter City Council's liquidity has fallen sharply over recent years. The chart shows that Exeter's position was initially close to the 'preferred' level of working capital but has reduced both in absolute terms and at a greater rate than its comparator group.



Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

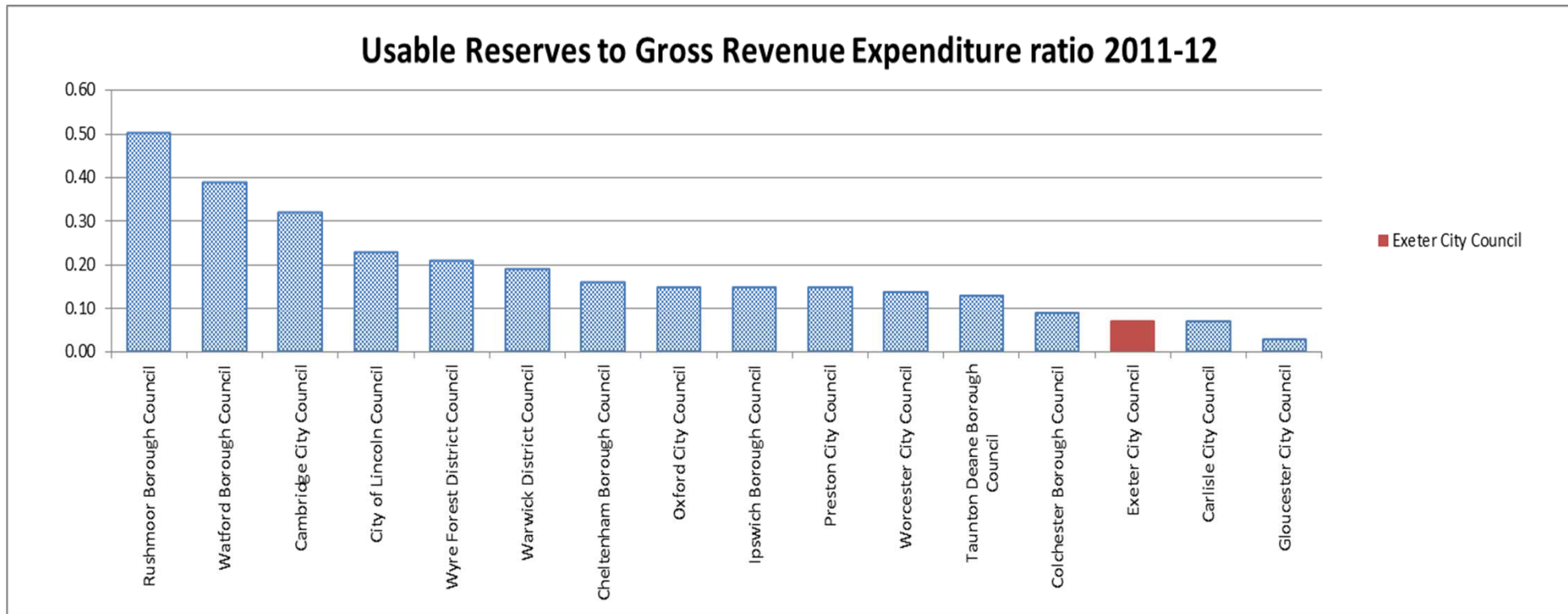
## Useable reserves - benchmarked

### Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves match the level of expenditure.

### Findings

Exeter's level of useable reserves is low compared to the comparator group being the equal second lowest at 0.07. This means that Exeter has set aside smaller amounts for future policy purposes or to cover contingencies than its peers.



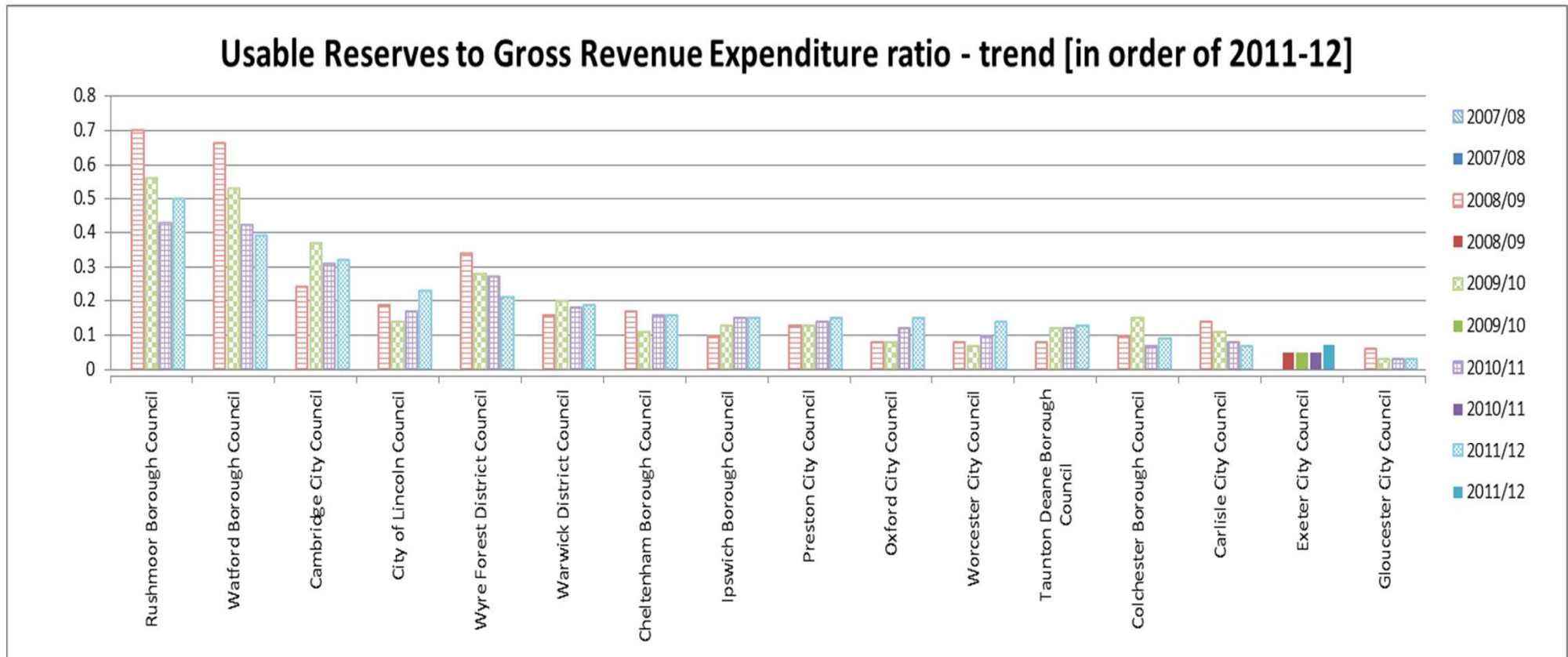
Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

## Useable reserves - trend

### Findings

The trend information shows that Exeter's level of useable reserves has been low historically compared to the comparator group. The Council has slightly increased its level of useable reserves from a ratio of 0.05 in the previous three years to 0.07 for 2011/12, representing £17.3M in reserves.



Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

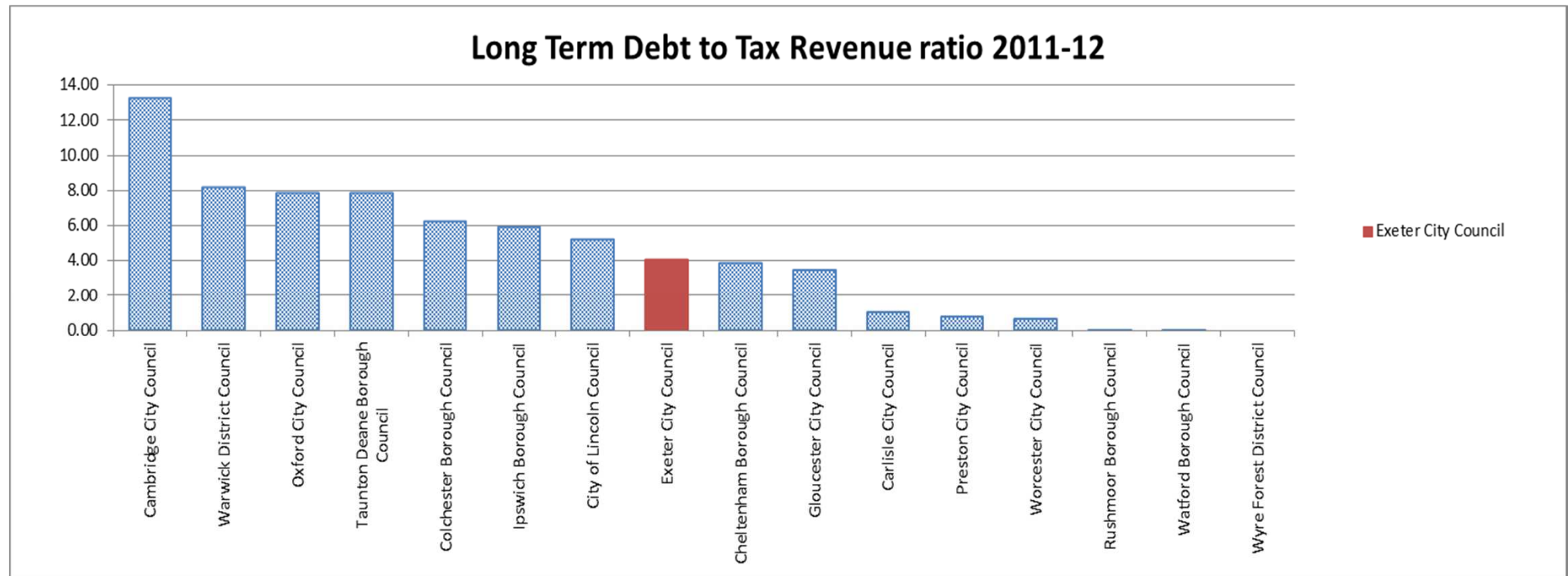
## Long term borrowing to tax revenue - benchmarked

### Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one indicates the degree to which long term borrowing exceeds council tax revenue.

### Findings

Exeter has a ratio of 4.06. This is around the mid-point of the range for its comparator group.



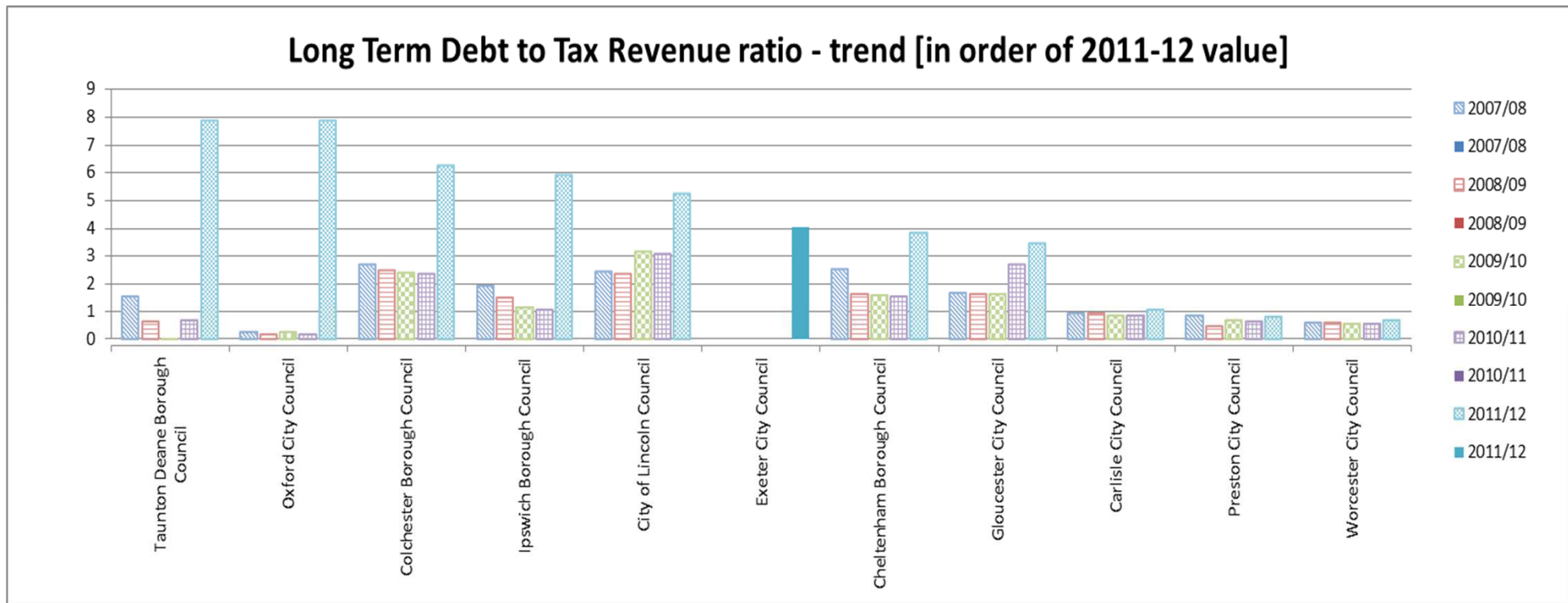


# Key Indicators of Financial Performance

## Long term borrowing to tax revenue - trend

### Findings

Prior to 2011/12 the Council had no long term borrowing. In 2011/12 Exeter borrowed £56.9M in order to buy itself out of the housing subsidy system and move to self financing of the Housing Revenue Account.



Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

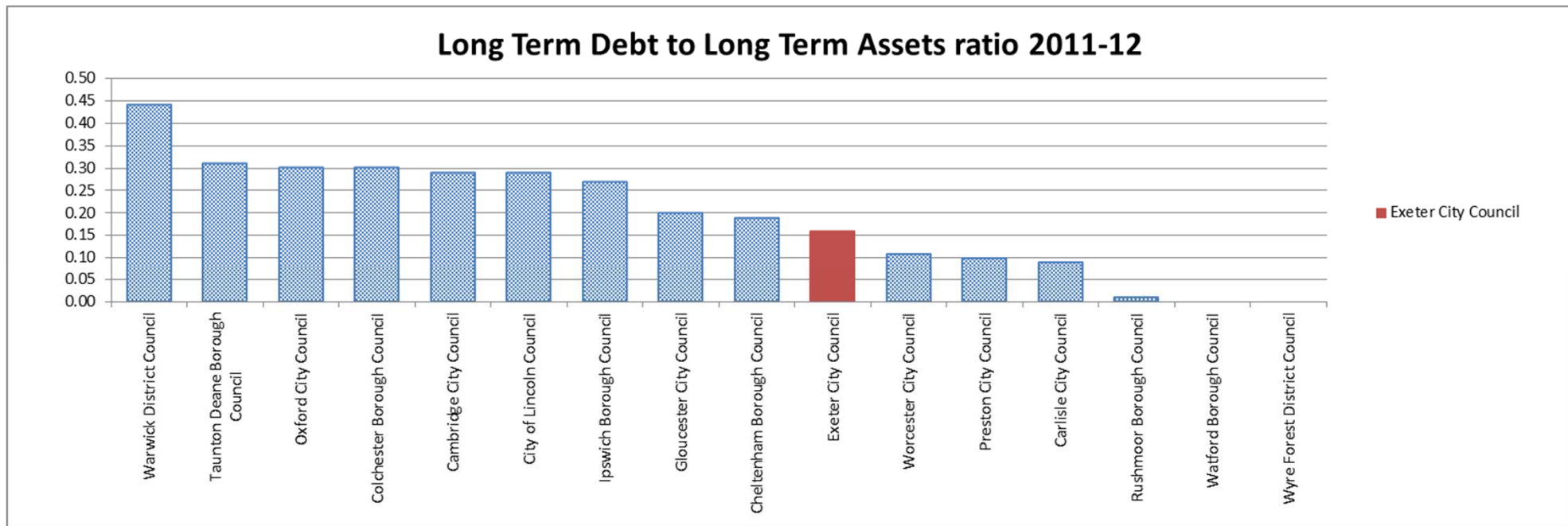
## Long-term borrowing to long-term assets - benchmarked

### Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

### Findings

Exeter has a ratio of 0.16. The chart shows that the Council's long term borrowing is slightly below the mid-point for the comparator group.



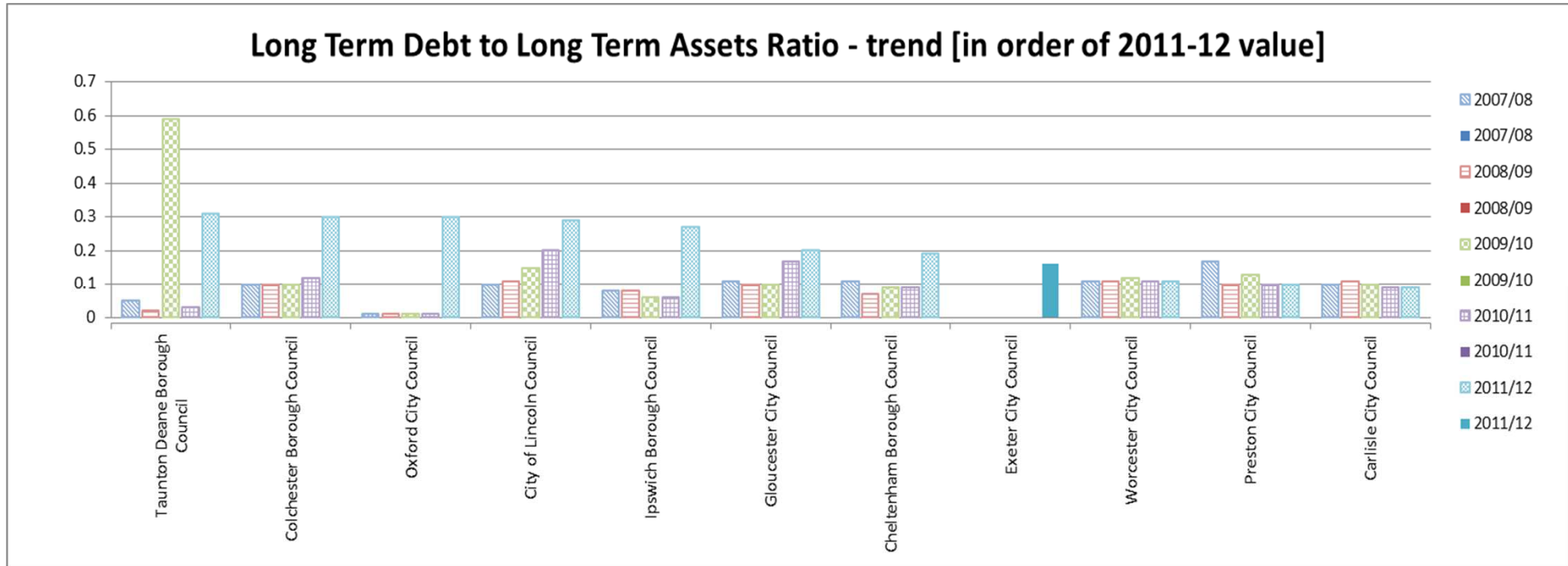
Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

## Long-term borrowing to long-term assets - trend

### Findings

The chart shows that as Exeter did not have any long term borrowing prior to 2011/12 it did not have a ratio in this area. The chart shows that in common with a number of other authorities with Housing Revenue Accounts (HRAs) the ratio of borrowing to assets rose sharply in 2011/12 following borrowing to enable councils to self-finance their HRAs.



Source: Audit Commission Financial Ratios Analysis

# Key Indicators of Financial Performance

## Sickness absence levels

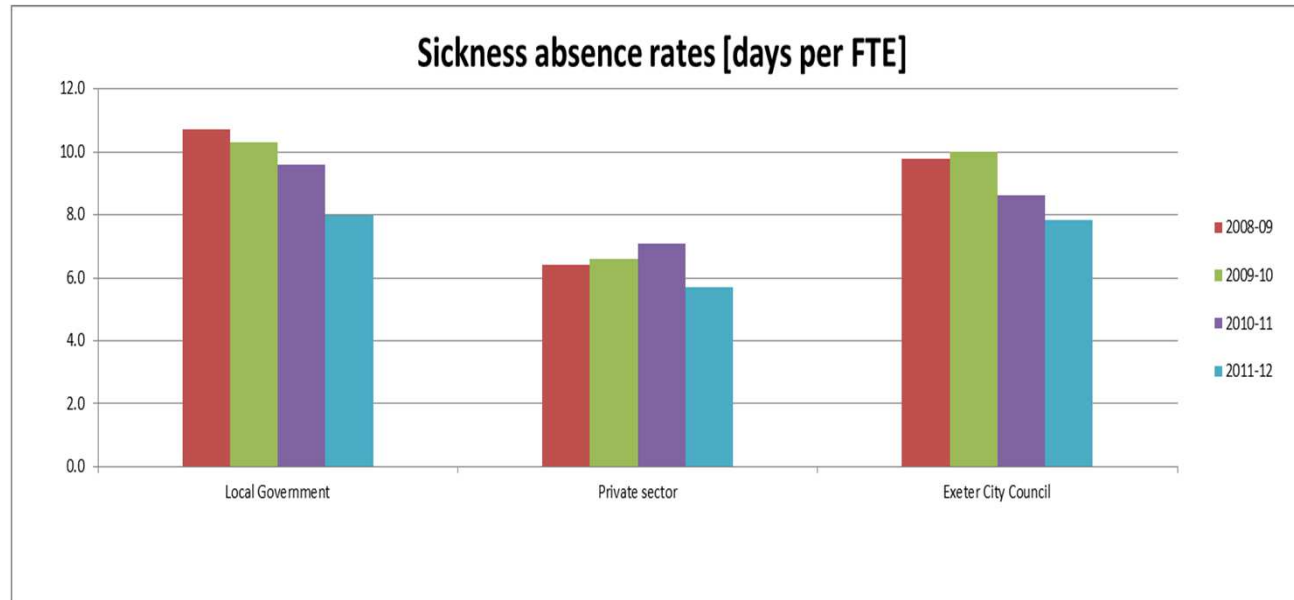
### Background

The average sickness absence level in the Local Government sector for 2011/12 was 8 days per FTE, while the private sector average was 5.7.

Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".



Source: CIPD Annual Survey Reports on Absence Management

### Findings

Exeter's sickness absence rate has reduced over the past three years. It has also been marginally below the Local Government comparator over the period. It remains, however, some way short of the private sector performance.



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