Grant Thornton

Auditor's Annual Report on Exeter City Council

2020-21

November 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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. 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 all 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.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant budget pressures relating to Covid-19 that included additional refuse and recycling costs, and reductions in carparking income. The Council administered £42m in government funded business support, test and trace and local restrictions grants during the year. The Council set an emergency budget in July 2020 to manage the implications of the pandemic and protect the Council's financial position. Against this background, and after accounting for government funding of £1.8m in Covid-19 support grant and £4m reimbursement for lost income, the Council achieved a surplus on the budgeted position of £5.4m.

We have identified a significant Value for Money weakness in relation to the governance arrangements for Exeter City Living, that could lead to decision making resulting in significant loss or exposure to significant financial risk. We have therefore made a key recommendation that governance arrangements should be strengthened in this area.

We have also identified twenty-one opportunities for improvement which are set out in detail within our report.

Criteria	Risk assessment	Finding
Financial sustainability	A risk of significant weakness was identified in relation to financial sustainability and the delivery of the financial plan.	No significant weaknesses in arrangements identified, but seven improvement recommendations made
Governance	No risks of significant weakness identified.	A significant weaknesses has been identified in relation to the governance arrangements for Exeter City Living. Nine improvement recommendations relating to wider governance arrangements have also been made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but five improvement recommendations made

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and key recommendation made.

Executive summary

Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. We have not identified any significant weaknesses in these areas but have identified opportunities for improvement. Specifically:

- undertaking consultation with residents and businesses as part of the budget process;
- the progress made in identifying and delivering savings from the One Exeter programme should be separately monitored and reported to Members;
- putting in place adequate governance arrangements to monitor commercialisation;
- the MRP statement should reflect both Minimum and Voluntary Revenue Provision;
- treasury monitoring and outturn reports should include MRP forecasts against budget;
- compliance with the revised 2003 Regulations when they are published by providing prudent MRP provision on capital loans;
- adopting a risk based approach to assess the prudent level of General Fund balances.

Further details and managements response is provided on pages 16-22.

Governance

We have identified a significant Value for Money weakness in relation to the governance arrangements for Exeter City Living, that could lead to decision making resulting in significant loss or exposure to significant financial risk. Weaknesses have been identified in relation to no approval of a 2021/22 business plan by the Council, the absence of reporting to Council on company performance during the year, and the potential for conflicts of interest with statutory officers also being company Board members.

We have therefore made a key recommendation that governance arrangements be strengthened in this area.

Further details and managements response is provided on pages 6-7.

We have not identified any other areas of significant weakness in the Council's wider governance arrangements with regard to managing risk, setting ethical standards, internal control and budget monitoring.

Governance continued

We have made improvement recommendations with regard to:

- mapping risks within the corporate risk register to corporate objectives;
- the Risk Management Policy should be reviewed and approved at regular intervals;
- internal audit progress reports should include a schedule of high risk recommendations, target dates and progress made in their implementation;
- e-procurement should be rolled out across the organisation;
- regular review of the Anti-Money Laundering Policy and Counter Fraud Strategy;
- even where legislation may not require the declaration of gifts and hospitality, or similar declarations, the Council should adopt robust ethical arrangements that promote the highest standards of behaviour;
- the officer Code of Conduct should include the requirement for interests to be recorded on the official register and that nil returns are required from senior officers;
- annual reminders should be sent to staff of the requirement to declare interests, gifts and hospitality;
- Scrutiny Programme Board decision records should be available to all Members.

Further details and managements response is provided on pages 28-36.

Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Council should:

- ensure that key service performance indicators are agreed and reported on a quarterly basis to Executive;
- consider the need for a data quality policy;
- routinely benchmark service costs and performance;
- ensure the progress made in implementing the Procurement Strategy is reviewed;
- ensure that procurement and contract management training is rolled out to officers.

Further details and managements response is provided on pages 41-45.

Opinion on the financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during August 2021 to March 2022. Full details of our findings from the audit are reported in our Audit Findings Report dated March 2022.

No material adjustments were required to the financial statements. One disclosure adjustment in relation to the collection fund adjustment account was identified.

We have made a recommendations that:

- all senior officers should be required to submit an annual declaration of interests;
- the user accounts identified with administration privileges are reviewed;
- no further journal postings are made via superuser IDs;
- the treatment of MRP on capital loans is reassessed;
- the latest available information is used by the valuer to support investment property valuations;
- information on valuer's judgements regarding complex investment properties is provided.

We gave an unqualified opinion on the Council's 2020/21 financial statements on 21 March 2022.

Key recommendations

Governance

1	**Recommendation**	The Council should review the governance arrangements for Exeter City Living to ensure that financial performance is reported to and closely monitored by the Council and that the conflict of interest between statutory officers who are also Board members is addressed. Specifically, we recommend that: • the Council approves an annual company business plan; • the Council receives detailed quarterly financial and performance update reports that identify progress against the business plan; • consideration be given to publishing company business cases and reports as public agenda items, with only commercially sensitive information treated as exempt from the public; • the Council addresses the conflict of interest created by the appointment of the S151 Officer and Monitoring Officer to the Board, and considers whether the Council should appoint an independent Director of Finance.
	Why/impact	The Council is exposed to significant financial risk through the loans that it has approved to the company for funding housing development. As at 31 March 2021 there were £9.0m of council loans outstanding, with a further £15.6m of loans approved and yet to be drawn down. It is important that the Council is fully sighted on the financial performance of Exeter City Living (with its target of becoming profitable by 2022/23), the progress being made on individual schemes that contribute to corporate housing priorities, and the financial risk that the council is exposed to with the loans that have been approved. We have identified a significant weakness with regard to the governance arrangements for Exeter City Living that could lead to decision making that could lead to significant loss or exposure to significant financial risk.

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendations

Governance

1	**Recommendation (continued)**	
	Summary findings	The Council approved the 2020/21 Exeter City Living business plan in July 2020 and this was rolled forward with no business plan approved for 2021/22. The Council did not receive any monitoring reports during 2020/21 on the progress made in delivering the schemes within the business plan, or a year end review of what the company had achieved compared to the plan. During 2020/21 the Council appointed the S151 Officer and Monitoring Officer as additional Directors onto the company Board which creates a potential conflict of interest between their roles as statutory officers and company Directors. All agenda items relating to company business cases and decision reports are treated as exempt from the public.
	Management comment	The recommendation is agreed in full. The Council will undertake a review of the Governance arrangements surrounding ECL and ensure that regular reporting to Council is integrated into the work programme. Scrutiny has already received the first progress report and these will continue. The Governance review will include a full review of the Board of Directors to establish a new, fit for purpose Board removing the statutory Officers of the Council. The review will also seek to ensure that the level of publicly available information is increased, where possible. The Statutory Officers have resigned from the Board.

The range of recommendations that external auditors can make is explained in Appendix C.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 9 to 45. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2020/21

The 2020/21 General Fund (GF) outturn position was a £5.4m surplus on the cost of services. This outturn position includes financial pressures associated with the pandemic such as a £0.7m reduction in carparking income and a £0.5m overspend in recycling services due to reduced income and increased costs. The Council received significant financial support from the government to fund the costs of the pandemic, including £1.8m in general Covid-19 support grant and £4.3m in compensation for lost sales, fees and charges income. Much of the service underspend was transferred as supplementary budgets to future years, for example relating to unspent business grant allocations.

Due to the favourable outturn position, the Council was able to make a £4.0m contribution to a budget volatility reserve, £1.0m to a business rate volatility reserve and support corporate priorities through the allocation of £1.0m to the net carbon zero fund and £1.0m to bring forward housing development sites. The GF balance was maintained at £4.7m, in excess of the minimum prudent level of £3.0m.

The Housing Revenue Account (HRA) achieved a £2.7m surplus for 2020/21 compared to a budgeted deficit of £4.1m. The surplus was largely due to the decision to take advantage of low borrowing costs rather than use the budgeted £5.2m revenue contribution to the capital programme.

The pandemic also had a significant impact on the delivery of the capital programme. GF capital spend slippage of £42.0m was identified at Quarter 3, relating to projects such as the leisure centre build and fit out, commercial projects and the capital loan to Exeter City Living. This reduced the budgeted programme to £30.4m, against which spend of £27.6m was incurred.

The approved HRA capital programme was reduced to £22.3m during the year as housebuilding schemes were delayed by the pandemic, with actual spend of £16.2m incurred against the budget.

Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability and made financial forecasting difficult as new periods of national lockdown were announced and additional tranches of government support allocated to councils. The financial implications of the pandemic were modelled and reported to Executive early in the financial year, through the emergency budget in July 2020.

At this point, estimated gross additional expenditure and income reductions due to the pandemic totalled £11.2m. Options to address this deficit included the use of Covid-19 funding, GF balances, earmarked reserves, reductions to minimum revenue provision charges, and service savings.

Subsequent quarterly budget monitoring analysed the trends with regard to reductions in income and increases in cost, offset by the announcement of additional government funding. By the end of the financial year a £1.16m contribution from the GF balance was required, an improved position compared to the emergency budget forecast of £1.25m. The action taken through the emergency

budget contributed to the favourable outturn position at the year end and allowed the Council to set aside additional reserves to mitigate future financial risk with regard to the pandemic and support corporate priorities.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as another tranche of general Covid-19 funding, additional sales, fees and charges compensation grant, and a new one-off tranche of New Homes Bonus grant.

The 2021/22 budget included the £0.76m general Covid-19 funding and the £1.94m New Homes Bonus allocation. Funding within the budget also includes a £5 increase in council tax in accordance with referendum principles.

The 2021/22 budget is not reliant on achieving recurring savings from service reductions to balance the overall financial position. The delay of the business rate reset and additional support allocated through the annual finance settlement benefited the financial position for 2021/22.

The budget includes the impact of expected investment and borrowing activity, with the 2021/22 budget reflecting increased interest costs due to the financing of the capital programme from borrowing. Investment income budgets reflect the anticipated loan activity with Exeter City Living.

There is adequate engagement from Members during the budget setting process. The Customer Focus Scrutiny Committee considered the GF and HRA budgets in February 2021 and the Strategic Scrutiny Committee considered the 2021/22 budget strategy and medium term financial plan in January 2021. The 2021/22 budget briefing workshop held in January 2021 was attended by 63% of Members.

Against the context of no service reduction savings being required to balance the 2021/22 budget, there was no consultation undertaken with residents or businesses. We have made an improvement recommendation that the Council should ensure that it consults with residents and businesses as part of the budget process. This will be particularly relevant as the Council reviews services through the One Exeter organisational change programme.

As a result of our work we have found no evidence of significant weaknesses in the Council's budget setting arrangements.

Medium term financial plan (MTFP)

Review of the Council's MTFP indicates that financial planning is based on realistic assumptions, although annual settlements and the delay of the fair funding review and business rate reset have made financial planning more difficult. The MTFP includes assumptions around New Homes Bonus, business rate income, council tax increases, fees and charges, inflation and borrowing costs.

The MTFP approved in February 2021 as part of the 2021/22 budget setting process models a £2.3m reduction to business rate income in 2022/23. This reflects the anticipated reforms to local government funding and the business rate reset. New Homes Bonus is forecast to reduce to zero in 2023/24 once the final legacy payment is received.

There is evidence that financial modelling includes sensitivity analysis and consideration of alternative proposals. The 2021/22 budget report sets out the implications on Council tax income of a reduced council tax increase from 3.12% to 1.99%. The medium term financial plan is modelled on the basis of worst, mid and best case scenarios which reflect different assumptions for government funding.

The Council keeps its financial plans under review and Members are kept informed throughout the budget process. Executive considered the budget strategy 2021/22 and MTFP in January 2021, with a further update to the MTFP provided in the 2021/22 budget report in February. The approved annual budget forms the baseline for modelling the medium term financial plan.

The February 2021 MTFP identifies the further savings required to balance the budget for the period 2021/22 to 2024/25. The total gap identified over the four year period is £6.0m, arising from the loss of business rate growth and New Homes Bonus funding, plus additional spending pressures.

The table overleaf summarises the MTFP position as at February 2021.

Further savings required as per the February 2021 MTFP					
Year	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Annual budget gap	0	2.50	1.75	1.75	6.00

The Council has significant savings to make in the medium term, the exact timing and financial impact of which will depend on the results of the fair funding review, business rate reset and ending of New Homes Bonus. The business rate reset has now been delayed for at least a further year, with the February 2022 MTFP modelling significant savings required to balance 2023/24, with a total savings target of £6.35m to 2025/26.

The Council's approach to balancing the budget gaps identified in the MTFP is through the One Exeter organisational change programme that was approved in February 2022. This programme includes workstreams that will create efficiencies and savings through new ways of working. Workstreams include reviewing leisure services, implementing a new target operating model, corporate property and income generation.

An indicative savings target of £7.9m to 2026/27 is currently allocated across the various One Exeter workstreams. Some savings from these workstreams have already been identified and included in the 2022/23 budget. These include a £0.55m saving through releasing capital receipts to fund the fleet lease contract, a £0.25m saving through a review of support service recharges and £0.4m saved through a review of discretionary services.

Currently savings included within the annual budget are monitored as part of the standard quarterly budget monitoring reports. We recommend that the progress made in identifying and delivering the significant savings that are required from the One Exeter programme should be separately monitored and reported to Members. Reporting should include savings required for current and future years and include a RAG rating as to their risk of delivery. This will ensure sufficient Member oversight of the programme and the opportunity to challenge workstreams where there is a risk that sufficient savings will not be delivered.

The MTFP approved in February 2021 models total net contributions from the GF balance of £1.6m to help balance the position between 2021/22 and 2024/25. However, the GF balance is projected to remain in excess of the minimum prudent level of £3.0m, representing 25% - 27% of the net budget.

The Council approved the Commercial Strategy in January 2020, with the vision of developing commercial activity in order to provide a surplus from services that contributes to the financial sustainability of the Council. The pandemic has affected the roll out of commercialisation, which in 2020/21 was focused on trade waste and the Council's activity as harbour authority, with the purchase of a company that repairs buoys. Commercialisation is one of the workstreams within the One Exeter organisational change programme.

Internal Audit reviewed the Council's progress with implementing the Commercial Strategy, issuing a limited assurance audit opinion in July 2021. The review identified areas for improvement relating to the monitoring and scrutiny of commercial activity and ensuring consistency with the Strategy. We have made an improvement recommendation that the Council should ensure that it puts in place adequate governance arrangements to monitor commercialisation as this activity increases to support the One Exeter programme.

The Council has an historic investment property portfolio valued at £53.4m as at 31 March 2021. This investment property made a net contribution of £3.1m to the Council in 2020/21. The portfolio is all within the Council area and includes leisure, retail and commercial property. The most recent acquisitions relate to two office blocks purchased in 2019/20 and held partly for place shaping and protection of the city scape. The property purchased in 2019/20 is the only investment property funded from borrowing, incurring a £0.3m MRP charge, thus reducing the budget risk from commercial property investment.

There are plans to purchase further investment property, most significantly the Guildhall for a total of £55m. The Council provides for the financial impact of this investment within its financial plans, forecasting an additional £0.6m MRP cost and additional income of £0.9m in the MTFP to fund associated costs. The objectives for the purchase of this property are primarily regeneration and the ability to free up land elsewhere on which to deliver new housing. The S151 Officer has been in discussion with the government to confirm that this purchase does not relate to an asset primarily for yield and confirm that the Council can continue to access PWLB funding the future.

We have found no evidence of significant weakness in the Council's financial planning

arrangements. Improvement recommendations have been identified to further strengthen arrangements, including monitoring the delivery of savings and ensuring adequate consultation to inform future decision making.

Capital strategy and treasury management

The Council approved the Capital Programme, Capital Strategy, Treasury Management Strategy and Prudential Code indicators in February 2021 as part of the budget setting process. These documents set out the Council's capital expenditure, capital financing and borrowing projections.

The Council approved a GF capital programme of £20.2m for 2021/22. The total capital programme to 2024/25 is £109.3m and is funded through a borrowing requirement of £95m.

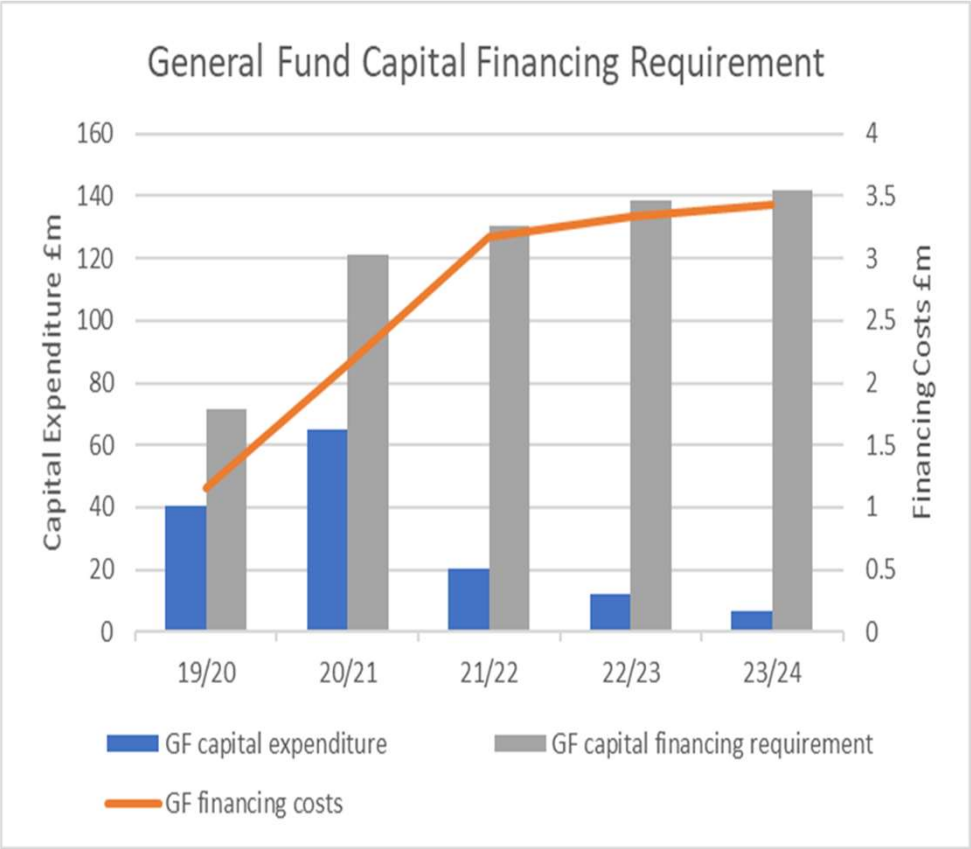
An HRA capital programme was approved at £24.2m for 2021/22, with a total programme to 2024/25 of £85.7m. This is funded through a £22.3m borrowing requirement.

Borrowing is required to fund a significant proportion of the General Fund capital programme as grant and internal resources have reduced. There were no new capital bids made or approved in the 2021/22 budget. The capital programme supports corporate priorities and includes significant investment in the waste and recycling service with new recycling containers and enhancements to the materials reclamation facility. The programme also supports a significant asset maintenance programme for the Council's multi-story carparks which will protect the significant income stream from these assets.

The Council's GF capital financing requirement is forecast to increase significantly as the Council funds the capital programme from borrowing. The forecast is that it will increase from £71.3m in 2019/20 to 141.8m by 2023/24, with the majority of the increase in 2020/21.

The Prudential Indicators approved in February 2021 reflect the impact on the General Fund of the forecast borrowing required to fund the capital programme. Interest costs are forecast to increase from £1.0m in 2019/20 to £1.9m by 2023/24 as the capital financing requirement increases. Similarly MRP costs are forecast to rise from £0.7m in 2019/20 to £1.6m by 2023/24.

The table overleaf demonstrates these increases in the capital financing requirement and associated financing costs.



We note that the 2021/22 budget for MRP is £0.69m while the MRP Statement discloses £1.27m. The difference relates to the use of historic voluntary revenue provision (VRP) overpayments to offset the actual charge for 2021/22. We have made an improvement recommendation that the MRP statement should reflect the overall position for MRP in the year, including both MRP and VRP.

Treasury mid year update and outturn reports contain an analysis of interest receivable and payable against the budget, but do not include an analysis of MRP costs against the budget. The GF outturn report does include the MRP outturn against budget within the overall GF summary. We have made an improvement recommendation that the key treasury monitoring reports should include MRP forecasts against budget in addition to interest receivable and payable.

We reported in the Audit Findings Report 2020/21 that the Council are not charging MRP against the capital loan payments to third parties, including Exeter City Living. In our view prudent MRP must be determined with respect to the authority's total capital financing requirement, including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans. We have made an improvement recommendation that the Council should ensure that it complies with the revised 2003 Regulations when they are published.

The Council undertook daily cash flow monitoring during 2020/21. Despite the impact of the pandemic creating cost pressures and reducing income, the Council did not experience any liquidity issues during the year due to the significant government support it received and the cashflow benefits from the business grant process.

We have found no evidence of significant weakness in the Council's capital and treasury arrangements. The Council should ensure it complies with the revised Local Authorities (Capital Finance and Accounting) Regulations 2003 once they ae published by providing for MRP on capital loans.

Reserves and risk mitigation

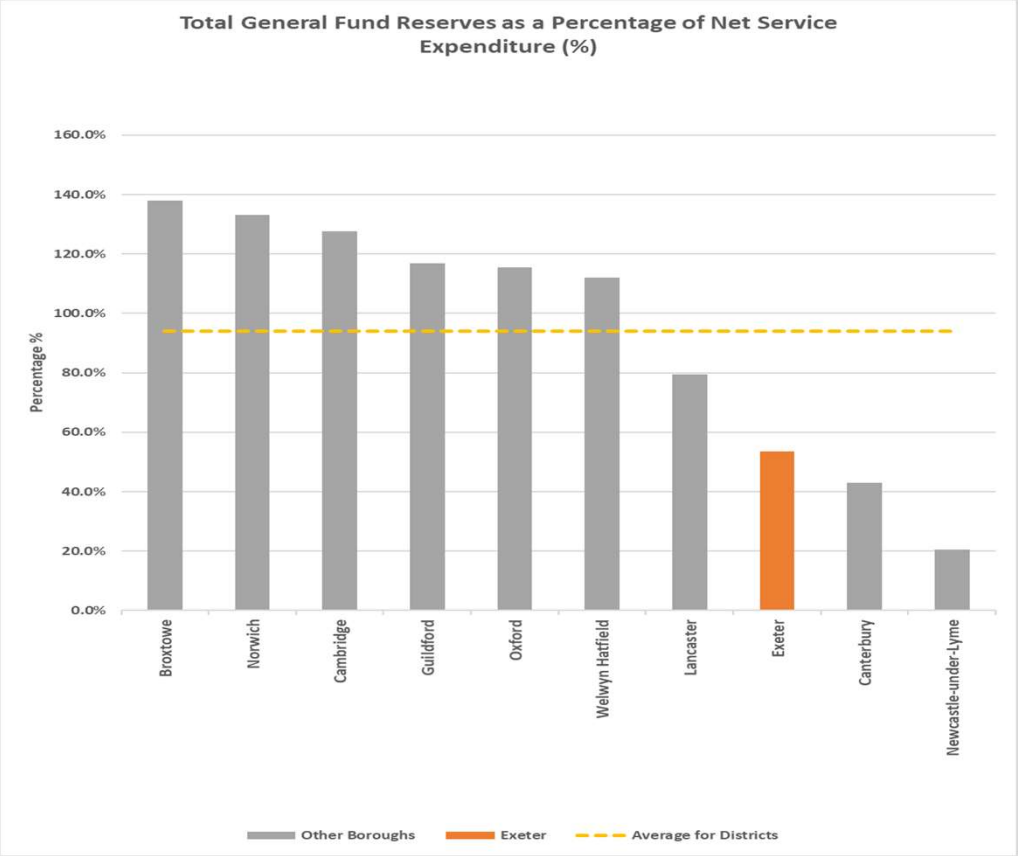
The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent level for unallocated GF reserves was confirmed as £3.0m during the budget setting process. As at 31 March 2021 the Council held £4.7m in unallocated GF balances. This represents 27% of the £17.1m net GF budget approved for 2021/22.

The prudent level is based on experience and knowledge of the risks within the Council's budget rather than a specific risk based calculation. While this level is in excess of the CIPFA benchmark of 5%-10% of net budget as a prudent GF balance, we have made an improvement recommendation that the Council should consider a risk based calculation. This would ensure that the level of GF balances the Council maintains reflects, and is sufficient to mitigate, the specific budget risks that the Council is exposed to.

The Council also holds earmarked revenue reserves, which increased from £8.5m at 1 April 2020 to £32.4m as at 31 March 2021. This increase includes the £17.4m S31 grant that was received to fund the collection fund deficit caused by the pandemic. Within earmarked reserves are funds which are also available to mitigate the financial risk that the Council faces. These include:

- budget volatility reserve £4.0m (established as part of 2020/21 closedown position);
- business rate volatility reserve £1.0m (established as part of 2020/21 closedown position);
- redundancy reserve £0.5m;
- transformation reserve £0.4m.

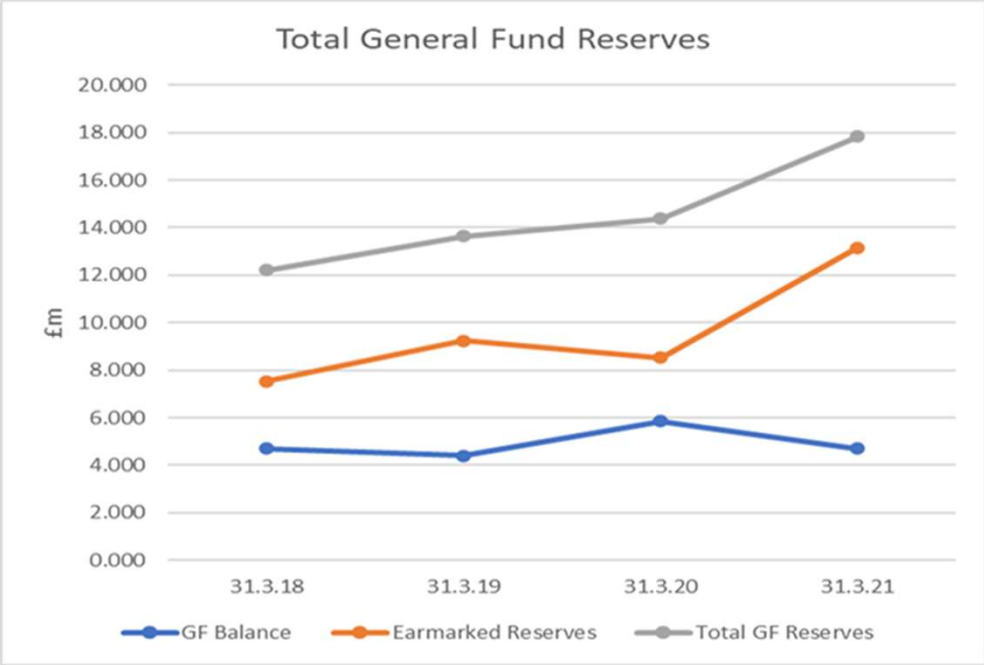
While the Council was able to increase reserves as at 31 March 2021 in order to provide increased financial resilience and fund corporate priorities, the graph overleaf demonstrates that the Council's level of reserves is below the average of 9 "nearest neighbour" authorities when comparing total GF and earmarked reserves to net service spend. The Council's reserves represent 53.4% of net service spend compared to an average of 94.0%. Data from the 2019/20 financial statements is used because 2020/21 data includes the S31 Collection Fund grants thus making comparisons difficult.



It should be noted that such comparisons do not take into account the specific circumstances relevant to different local authorities, for example levels of debt or capital funding plans. As such they can only provide a high level comparison of the total reserves held by an authority.

In mitigation, within earmarked reserves the Council holds significant funds to manage budget risk relating to the business rates, budget volatility and strategic contingencies. There is also no evidence that the total level of GF and earmarked reserves have been eroded in recent years.

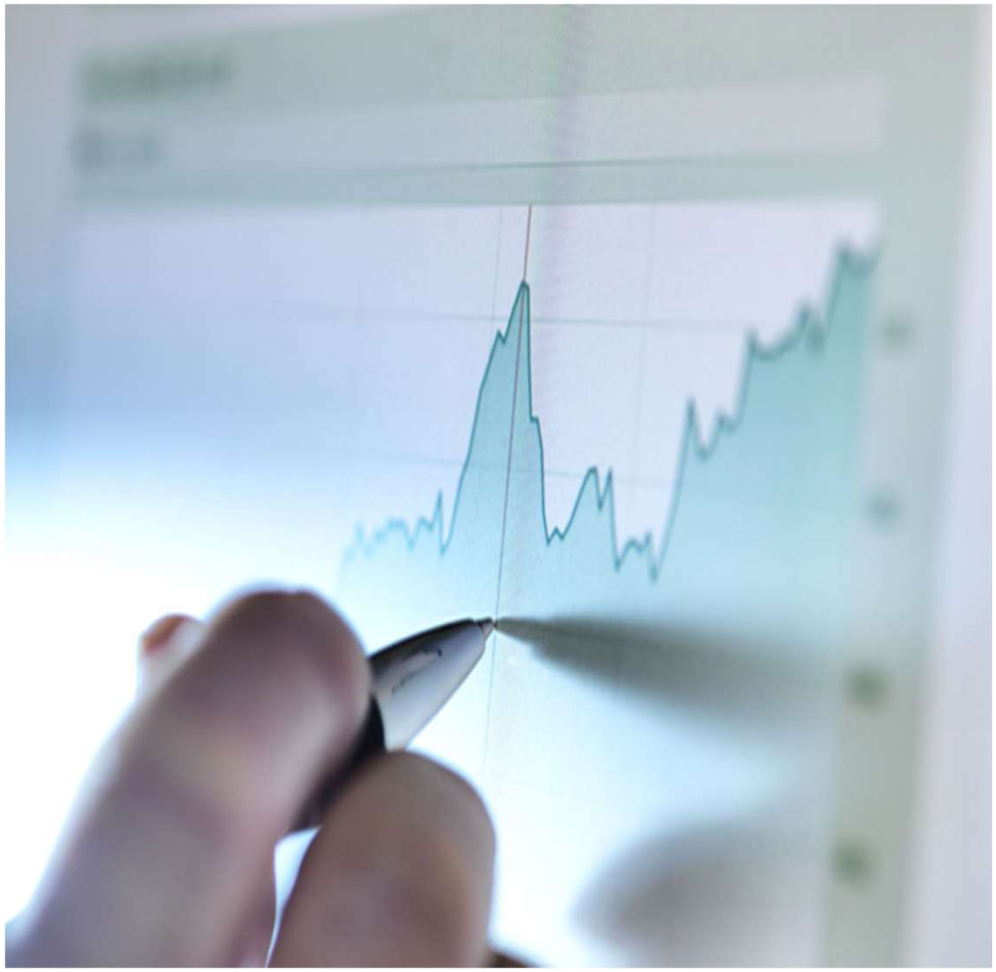
After adjusting for the £17.4m S31 grant that was held at 31 March 2021 to fund the collection fund deficit and £1.9m in carried forward pandemic-related business grant reserves, the Council had total GF and earmarked reserves of £17.8m at the year end. This represents an increase from £14.4m as at 1 April 2020. Total GF and earmarked reserves have increased for each of the last four financial years as demonstrated in the table below.



The level of reserves is considered adequate in the context of the GF balance exceeding the £3m minimum balance, and at £4.696m representing 27% of the 2021/22 net budget. Earmarked reserves have increased over time and were bolstered through the favourable 2020/21 closedown through the establishment of specific and substantial budget risk reserves that total £5m.

The MTFP does model the use of GF balances to help balance the budget while recurring savings are delivered, with a net contribution of £1.6m between 2021/22 and 2024/25. When the budget was set in February 2021 the forecast was that this use of GF balance would maintain the GF balance above the minimum prudent level of £3m, and equate to between 25% and 28% of the net budget each year. We note that the actual 2020/21 outturn position for the GF balance of £4.7 was marginally lower than the £4.9m forecast when the budget was set. Under the MTFP model this could mean GF balances fall to £2.9m in 2023/24 before being topped up in 2024/25 to £3.1m

We have found no evidence of significant weakness with regard to the Council's reserves strategy and mitigation of risk. The Council should continue to review the level of reserves it holds in order to ensure that they are adequate to mitigate financial risk, and that the Council can respond to unforeseen budget variances without impacting on its ability to deliver corporate priorities. We have made an improvement recommendation that the Council should consider a risk based calculation for the recommended level of GF balances.



Improvement recommendations

Financial sustainability

1	**Recommendation**	The Council should ensure that it consults with residents and businesses as part of the budget process.
	Why/impact	Consultation with external stakeholders will be particularly relevant as the Council reviews services through the One Exeter organisational change programme.
	Summary findings	The 2021/22 budget did not rely on savings from reductions in service to balance the position. Against this context there was no consultation undertaken with residents or businesses.
	Management comment	Agreed – the Council will reinstate its budget consultation with business, which it temporarily stopped during the Covid pandemic. The Council will seek to identify a process for consulting with residents on the proposals for the 2023-24 budget.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

2	**Recommendation**	The progress made in identifying and delivering the significant savings that are required from the One Exeter programme should be separately monitored and reported to Members. Reporting should include savings required for current and future years and include a RAG rating as to the risk of delivery.
	Why/impact	Separate detailed monitoring of the savings required through One Exeter will ensure sufficient Member oversight of the programme and the opportunity to challenge workstreams where there is a risk that sufficient savings will not be delivered.
	Summary findings	Currently savings included within the annual budget are monitored as part of the standard quarterly budget monitoring reports. The One Exeter organisational change programme is the mechanism by which the Council will balance the significant budget gaps identified in the MTFP, with workstreams allocated an indicative savings target of £7.9m to 2026/27.
	Management comment	Agreed – the Council has reported the programme to Members in February 2022. Updates will be reported, either as a separate part of the budget monitoring report or via a separate report to Committee.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

3	**Recommendation**	The Council should ensure that it puts in place adequate governance arrangements to monitor commercialisation as this activity increases to support the One Exeter programme.
	Why/impact	As the Council begins to rely increasingly on the commercialisation of Council services it should ensure that there are appropriate arrangements in place to approve, monitor and scrutinise commercial activity. This is necessary to ensure that the benefits identified in business cases are achieved and the risks of commercialisation are identified and understood.
	Summary findings	The Council approved the Commercial Strategy in January 2020, with the vision of developing commercial activity in order to provide a surplus from services that contributes to the financial sustainability of the Council. The pandemic has affected the roll out of the commercialisation, which in 2020/21 was focused on trade waste and the Council's activity as harbour authority with the purchase of a company that repairs buoys. Commercialisation is one of the workstream within the One Exeter organisational change programme. Internal Audit reviewed the Council's progress with implementing the Commercial Strategy, issuing a limited assurance audit opinion. The review identified areas for improvement relating to the monitoring and scrutiny of commercial activity and ensuring consistency with the Strategy.
	Management comment	Agreed – the Council is reviewing its approach to commercialisation. If a concerted effort to continue with Commercialisation is approved, then this will include regular reporting to Committee on progress.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

4	**Recommendation**	The MRP statement should reflect the overall position for MRP in the year and the implications for the annual budget, incorporating both MRP and VRP.
	Why/impact	The MRP statement should identify the budget implications of the Council's MRP policy.
	Summary findings	The 2021/22 budget for MRP is £0.69m while the MRP Statement discloses £1.27m. The difference relates to the use of historic voluntary revenue provision (VRP) overpayments to offset the actual charge for 2021/22.
	Management comment	Agreed – this was a one-off error, where the decision to use some of the voluntary overpayments to offset the actual MRP properly charged was omitted from the statement.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

5	**Recommendation**	The key treasury monitoring and outturn reports should include MRP forecasts against budget in addition to interest receivable and payable.
	Why/impact	Treasury reporting should include the MRP budget, and measure performance against the budget, in order to provide for a full understanding of the Council's treasury activity and an understanding of the risks that the Council is exposed to.
	Summary findings	The treasury mid year update report and outturn reports contain an analysis of interest receivable and payable against the budget, but do not include an analysis of MRP costs against the budget. The GF outturn report does include the MRP outturn against budget within the overall GF summary.
	Management comment	Agreed – this can be incorporated immediately. MRP forecasts are currently provided to members via the budget strategy and Budget setting papers, but can be included in these reports as well.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

6	**Recommendation**	The Council should ensure that it complies with the revised 2003 Regulations when they are published by providing prudent MRP provision on capital loans made to third parties.
	Why/impact	The proposed revisions to the 2003 Regulations will clarify that MRP should be provided on capital loans.
	Summary findings	We reported in the Audit Findings Report 2020/21 that the Council are not charging minimum revenue provision (MRP) against capital loans that have been made to third parties. In our view prudent MRP must be determined with respect to the authority's total capital financing requirement including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans.
	Management comment	The Council will comply with regulations, however it should be noted that these have been delayed. As the Council currently acts fairly, in that it properly sets aside the loan repayment principal to reduce the Council's own debt, it is felt that the Council is acting appropriately to protect future taxpayers by reducing its debt in line with the reduction in the asset.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

7	**Recommendation**	The Council should consider using a risk based calculation for the minimum prudent level of GF balances. This should have regard to the specific budget risks the Council is exposed to, their magnitude and likelihood of occurring.
	Why/impact	A risk based calculation would ensure that the level of GF balances the Council maintains reflects, and is sufficient to mitigate, the specific budget risks that the Council is exposed to
	Summary findings	The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent level for unallocated GF reserves was confirmed as £3.0m during the budget setting process. As at 31 March 2021 the Council held £4.7m in unallocated GF balances. This represents 27% of the £17.1m net GF budget approved for 2021/22. The prudent level is based on experience and knowledge of the risks within the Council's budget rather than a specific risk based calculation. While this level of reserves exceeds the CIPFA benchmark of 5%-10% of net budget for prudent levels of GF balances, we have made an improvement recommendation that the Council should consider a risk based calculation.
	Management comment	The Council will look at best practice elsewhere to identify a suitable, documented risk based approach. However, it is the section 151 Officer's view that limiting reserves to the CIPFA benchmark of 5-10% of net budget would leave the Council at significant risk.

The range of recommendations that external auditors can make is explained in Appendix C.

Governance

We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

COVID-19 arrangements

During the 2020/21 financial year the Council supported the community, businesses and the delivery of critical services through the pandemic, and adapted governance arrangements as required. The majority of staff worked from home during the year, with staff redeployed from non-critical services to support the Council's response to the pandemic. The Council launched the Exeter Community Wellbeing support service to provide support to vulnerable members of the community and those required to self isolate. A call centre was set up that matched those needing help to appropriate groups and organisations, with help available for shopping and medication collection.

Council, Executive and essential Committee meetings were held remotely throughout the year, allowing for public participation and for the democratic decision making process to continue. The Council's scrutiny committees restarted once the impact of the pandemic started to ease, focusing on Covid-19 updates from portfolio holders up until December 2020.

The strategic management board held daily meetings during the height of the pandemic in order to coordinate the Council's response. These meetings were minuted and provide a record of the decisions taken and actions agreed. The strategic management board used the Council's business continuity plans to inform decision making.

Work on revising and updating business continuity plans was accelerated as the pandemic developed through January 2020. This ensured robust plans were in place by the time that the pandemic impacted on the Council and community. As the impact of the pandemic subsided, internal audit undertook a "lessons learned" review to provide information to managers on what went well and what could have been done better in relation to business continuity.

The Council made changes to internal controls and processes as required. A central procurement hub was set up for ordering personal protective equipment using an online form. Changes were made to the creditor payment process to enable staff to work from home, with paper invoices received at the civic offices scanned and emailed to the team for payment. Invoices were paid on immediate terms so as to support the cashflow of suppliers and service continuity.

The internal audit plan was amended to reflect the capacity of both the audit team and services. The revised plan included audit reviews for new areas of risk, including business grants, the income compensation grant and an inventory check for the in-house leisure service.

The Executive approved the Exeter Recovery Plan in June 2020. In addition to the Council's involvement with the local resilience forum's business and economy recovery task group, a Council led response was coordinated through the Liveable Exeter Place Board. The Board includes organisations from across Exeter as well as key community figures, and seeks to address key themes such as construction and development, the city centre and the visitor economy.

The Council administered £42m in government funded business support, test and trace and local restrictions grants during the year. Internal audit carried out grant pre and post payment check reviews and were able to give either satisfactory or

substantial audit assurance opinions to all of the various grant schemes that the Council administered.

All of the above provides evidence of appropriate actions being taken to address the risks and challenges presented by the Covid-19 pandemic.

Managing risk

The Audit and Governance Committee review the Council's corporate risk register quarterly. The corporate risk register is reviewed by officers to ensure that it only contains strategic risks, with operational risks managed through service level risk registers. Review of the corporate risk register confirms that it contains only strategic risks and that the number reported is not excessive, thus allowing for detailed monitoring and understanding of key risks.

The risk registers include most of the features of good practice that we would expect to see. Each risk has a description, risk owner, RAG rated inherent and residual risk scores, mitigating actions and target dates. We recommend that risks on the corporate risk register are mapped to corporate objectives to ensure that only strategic risks are included and that their potential impact on Council priorities is understood.

The Council's Risk Management Policy is dated 2015 and there is no formal review of the policy by the Audit and Governance Committee. We recommend that this policy is formally reviewed and approved at regular intervals to ensure that it accurately reflects the Council's appetite for risk and the responsibilities for recording, reporting and managing risk. There are risk management guidance notes for officers, dated 2019, which set out the procedures for completing the risk register and these are available on the Council's intranet.

From our work we have not identified any significant areas of weakness in the Council's arrangements to manage and report risk but we have made improvement recommendations to further strengthen arrangements.

Internal control

The Council maintains its own in-house internal audit function. The independent external assessment of internal audit carried out in January 2020 confirmed that the service generally conforms to the Public Sector Internal Audit Standards.

The Audit and Governance Committee approved the 2020/21 Internal Audit Plan in March 2020. The audit plan was amended during the year due to the impact of the pandemic on the audit team and services. Resources were directed to newly emerging risks including business grants, the income compensation grant and an inventory check for the in-house leisure service. The Internal Audit Annual Report confirms that 483 audit days were delivered against the planned 472 days. A reasonable audit assurance opinion was given for 2020/21 with internal audit concluding that key control systems are operating satisfactorily.

The Audit and Governance Committee receives quarterly internal audit progress reports which include details of completed audits against the plan, the audit opinion, high risk findings and an audit summary. The internal audit team monitor the implementation of recommendations through a tracker, with the progress reports containing a statement confirming that agreed actions from previous reports are being progressed satisfactorily, or revised action plans agreed.

We recommend that the progress reports include a schedule of previous high risk recommendations agreed, target dates and notes on the progress made in implementing the recommendations. This will allow the Audit and Governance Committee to hold managers to account where weaknesses in controls have been identified and actions to address them agreed. It would allow for better scrutiny of recommendations where timescales have been extended and action plans revised.

We note that while the creditors audit was given a satisfactory audit assurance opinion, a high risk finding was identified with regard to the low level of electronic orders being placed, resulting in a weakness in control through lack of order pre-authorisation. This issue had been identified in previous audits. We understand that the Council is implementing an e-procurement system to be rolled out in 2022 that will require electronic orders to be raised, with a no purchase order, no pay rule to be enforced. We have made an improvement recommendation that the Council should ensure that e-procurement is rolled out across the organisation and appropriate controls around electronic orders enforced.

From our work we have found no areas of significant weakness in the management and reporting of internal control, but have identified improvement recommendations that will further strengthen arrangements.

Monitoring Standards

The Whistle Blowing Policy is reviewed by Audit and Governance Committee every two years, and was last approved in March 2020. We note that the Council's Anti-Money Laundering Policy was last approved in July 2018, while the Counter Fraud Strategy has not been approved since 2014. The Counter Fraud Strategy is subject to internal review every two years and is evidenced by a version control log, but is only reapproved by Committee should there be significant updates.

We have made an improvement recommendation that the Anti-Money Laundering Policy and Counter Fraud Strategy should be formally reviewed and approved by the Audit and Governance Committee on a regular basis, in the same way as the Whistle Blowing Policy. This ensures that they remain up to date and reflect best practice and legislation, but also regular formal review helps maintain an appropriate culture with regard to the prevention and detection of fraud and corruption.

The Council has officer and Member Codes of Conduct which form part of the Constitution and include the policies for registering interests and gifts and hospitality. The Audit and Governance Committee considered the LGA model Member Code of Conduct during the year, with the Council approving the model Code in April 2021.

We note that the previous Member Code of Conduct that applied during 2020/21 did not require Members to declare gifts and hospitality. The Code adopted in April 2021 includes the requirement for gifts and hospitality over £50 to be declared and declarations are publicly available on the Council's website. We have made an improvement recommendation that even where legislation may not require the declaration of gifts and hospitality, or similar declarations relating to maintaining high standards of behaviour, that the Council should adopt robust ethical arrangements that promote the highest standards of behaviour, openness and transparency.

While the officer Code of Conduct contains guidance on declaring interests, it does not explicitly states that these should be recorded on the register. The Code requires that officers disclose interests to an appropriate manager. Limited declarations were made by officers in 2020/21 and there is no requirement for confirmation of nil returns from senior officers. We have made an improvement recommendation that the officer Code of Conduct should include the requirement for interests to be recorded on the official register and that nil returns are required from senior officers.

Members are reminded of the requirement to declare interests, gifts and hospitality through annual training on the Code of Conduct.

From our work we could not find evidence that officers are reminded of the requirement to declare interests, gifts or hospitality. We have made an improvement recommendation that the responsibility for sending reminders to staff should be established and annual reminders sent.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer who both sit on the Council's leadership team. From our work we have not identified any significant instances of non-compliance with legislation or the Constitution.

We have received a representation from a member of the public raising concerns around the Council's arrangements for Scrutinising the decisions made by Executive. We have reviewed the Council's Scrutiny arrangements and while we have found no evidence of significant weakness, we have made an improvement recommendation to strengthen arrangements. The Scrutiny Programme Board receives proforma requests from Members requesting items for scrutiny. We recommend that the completed proformas, which include the reasons why a request is accepted or rejected, are routinely available to all Members to ensure maximum transparency around decision making.

We have not identified any significant weaknesses with regard to the Council's arrangements for ensuring adherence to laws and regulations or ethical standards. We have identified areas where arrangements could be strengthened, particularly around the formal review and approval of key policies, the officer Code of Conduct and Scrutiny Programme Board decisions.

Budgetary control 2020/21

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding.

The financial implications of the pandemic were modelled and reported early in the financial year to Executive in July 2020. Options to address the £11.2m deficit included the use of Covid-19 funding, GF balances, earmarked reserves, reductions to minimum revenue

provision charges, as well as service savings.

The financial position continued to be closely monitored throughout the financial year and reported quarterly to Executive. In addition the financial impact of the pandemic was monitored through the monthly Covid-19 returns that were submitted to the government. By the end of the financial year a £1.16m contribution from the GF balance was required, an improved position compared to the emergency budget forecast of £1.25m. The action taken through the emergency budget contributed to the £5.4m surplus on the cost of services at the year end, allowing for reserves to be set aside to mitigate future budget risk and support corporate priorities.

Quarterly budget monitoring reports include a detailed analysis of budget variances accompanied by a narrative for the General Fund and the Housing Revenue Account. Monitoring includes both revenue and capital expenditure. There is clear evidence that trends in expenditure are analysed and forecast to the year end. The narrative to the budget variances includes impacts on future years where this can be determined.

Arrangements are in place for the finance team to engage with budget managers to regularly review financial performance using revenue and capital budget monitoring statements and data downloaded from the finance system. Budget managers also have access to the finance system.

We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring.

Exeter City Living governance arrangements

Exeter City Living is the Council's wholly-owned housing development company. The Council is exposed to significant financial risk through the loans that it has approved to the company for funding housing development. As at 31 March 2021 there were £9.0m of council loans outstanding, with a further £15.6m of loans approved and yet to be drawn down. After the company's first two years of trading the company had accumulated losses of £2.2m as at 31 March 2021. The Council's General Fund received £0.46m in loan interest for 2020/21, which is forecast to increase by £0.7m once the further approved borrowing is drawn down.

While the Council approved the 2020/21 Exeter City Living business plan in July 2020, this was rolled forward with no plan approved for 2021/22 and no further loan approvals required. It is good practice that business plans are updated and approved on an annual basis. While the activities within the 2020/21 business plan continued into 2021/22, the assumptions regarding the costs and delivery of the projects should have been updated in a new business plan that reflected current market conditions and the impact of the pandemic.

We also note that the Council did not receive any monitoring reports during 2020/21 on the progress made in delivering the schemes within the business plan, or a year end review of what the company had achieved compared to the plan. The Council was therefore not able to hold the company Directors formally to account for the implementation of the plan and progress made on individual schemes.

The Exeter City Living Board do receive detailed financial monitoring reports which compare actual performance to the budget and forecasts for the year. The information includes forecasts for the company as a whole and on a site by site basis. We consider this information should form the basis of regular reporting to the Council.

The Council made changes to the company's governance arrangements during 2020/21, aimed at creating additional capacity within the company and improving political and corporate oversight. The changes included the appointment of the Council's S151 Officer and Monitoring Officer as additional Directors onto the company Board. It is not best practice for a council's S151 Officer to hold a position on council-owned company Boards. Certain decisions of the shareholder require ratification by the S151 Officer, while it is a legal requirement that company Directors must act in the best interests of the company. We note that the company does not have a Director of Finance and that the finance function is carried out by the Council's finance department. The Monitoring Officer is also exposed to a conflict of interest between their statutory officer role for the Council and that of a company Director.

Other governance changes included the appointment of the Chief Executive and Growth Director to the role of shareholder representative for the Council, able to undertake delegated decisions in consultation with the Leader and relevant portfolio holder. This shareholder representative group is the contact for the day to day relationship between the Council and the company.

We have received representations from members of the public raising concerns around the governance arrangements for Exeter City Living, referring to a perceived conflict of interest

with statutory officers also holding Director positions within the company. Concerns have also been raised as to why all company business plans and decision reports are treated as exempt agenda items. While some elements of company decision reports are commercially sensitive and rightly treated as exempt items, the Council should review its approach to treating all such agenda items as exempt, in order to increase the transparency of decision making.

We are therefore identifying a significant weakness with regard to the governance arrangements for Exeter City Living that could lead to decision making that could lead to significant loss or exposure to significant financial risk. It is important that the Council is fully sighted on the financial performance of Exeter City Living (with its target of becoming profitable by 2022/23), the progress being made on individual schemes that contribute to corporate housing priorities, and the financial risk that the Council is exposed to with the loans that have been approved.

We recommend that:

- the Council approves an annual company business plan;
- the Council receives detailed quarterly financial and performance update reports that identify progress against the business plan;
- consideration be given to publishing company business cases and reports as public agenda items, with only commercially sensitive information treated as exempt from the public;
- the Council addresses the conflict of interest created by the appointment of the S151 Officer and Monitoring Officer to the Board, and considers whether the Council should appoint an independent Director of Finance.

Improvement recommendations

Governance

8	**Recommendation**	The risks within the corporate risk register should be mapped to corporate objectives.
	Why/impact	We recommend that risks on the corporate risk register are mapped to corporate objectives to ensure that only strategic risks are included and that their potential impact on Council priorities is understood.
	Summary findings	The Audit and Governance Committee review the Council's corporate risk register quarterly. The risk registers include most of the features of good practice that we would expect to see. Each risk has a description, risk owner, RAG rated inherent and residual risk scores, mitigating actions and target dates. Risks on the corporate risk register are not mapped to corporate objectives.
	Management comment	Agreed – this will be introduced once the Corporate Plan has been approved in October.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

9	**Recommendation**	The Audit and Governance Committee should formally review and approve the Council's Risk Management Policy at regular intervals.
	Why/impact	Reviewing the Risk Management Policy at regular intervals will ensure that it accurately reflects the Council's appetite for risk and the responsibilities for recording, reporting and managing risk.
	Summary findings	The Council's Risk Management Policy is dated 2015 and there is no formal review of the policy by the Audit and Governance Committee.
	Management comment	Agreed. This is already in progress. The policy has been reviewed and the first draft is being finalised. This will then be passed on to SMB and once approved, it will be taken to the Audit and Governance Committee for review and approval.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

10	**Recommendation**	Internal Audit progress reports should include a schedule of previous high risk recommendations agreed, target dates and notes on the progress made in implementing the recommendations.
	Why/impact	Including a schedule of high level recommendations agreed and the progress made in implementing them will allow the Audit and Governance Committee to hold managers to account where weaknesses in controls have been identified and actions to address them agreed. It would allow for better scrutiny of recommendations where timescales have been extended and action plans revised
	Summary findings	The Audit and Governance Committee receives quarterly internal audit progress reports which include details of completed audits against the plan, the audit opinion, high risk findings and an audit summary. The internal audit team monitor the implementation of recommendations through a tracker, with the progress reports containing a statement confirming that agreed actions from previous reports are being progressed satisfactorily or revised action plans agreed. There is no schedule of high risk recommendations and the progress made in implementing them included within the reports.
	Management comment	Agreed. This will be introduced for the next A & G meeting in September.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

11	**Recommendation**	The Council should ensure that e-procurement is rolled out across the organisation and appropriate controls around electronic orders enforced.
	Why/impact	E-procurement systems allow for the pre-authorisation of electronic orders before they are sent to suppliers. This creates a separation of duties within the ordering process and creates additional checks that spend is appropriate and a budget exists.
	Summary findings	While the creditors audit was given a satisfactory audit assurance opinion, a high risk finding was identified with regard to the low level of electronic orders being placed, resulting in a weakness in control through lack of order pre-authorisation. This issue had been identified in previous audits. We understand that the Council is implementing an e-procurement system to be rolled out in 2022 that will require electronic orders to be raised, with a no purchase order, no pay rule to be enforced.
	Management comment	Agreed. The Council is on target for a go live 12/13 September, which will see a new Buyer role that will enforce the accurate use of POs and be able to refer back those which are not raised correctly. The no PO no pay rule will be mandated and there will be a very short list of exceptions to this rule.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

12	**Recommendation**	The Anti-Money Laundering Policy and Counter Fraud Strategy should be formally reviewed and approved by the Audit and Governance Committee on a regular basis, in the same way as the Whistle Blowing Policy.
	Why/impact	Regular formal review and approval of these policies ensures that they remain up to date and reflect best practice and legislation. Regular formal review also helps maintain an appropriate culture with regard to the prevention and detection of fraud and corruption.
	Summary findings	The Whistle Blowing Policy is reviewed by Audit and Governance Committee every two years, and was last approved in March 2020. The Council's Anti-Money Laundering Policy was last approved in July 2018, while the Counter Fraud Strategy has not been approved since 2014. The Counter Fraud Strategy is subject to internal review every two years and is evidenced by a version control log, but is only reapproved by Committee should there be significant updates.
	Management comment	Agreed. Committee Services have been asked to add this to the agenda timetable.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

13	**Recommendation**	Even where legislation may not require the declaration of gifts and hospitality, or similar declarations relating to maintaining high standards of behaviour, the Council should adopt robust ethical arrangements that promote the highest standards of behaviour, openness and transparency.
	Why/impact	Members should be required to adhere to the highest ethical standards. We consider it unusual that in the past there was no requirement for Members to declare gifts and hospitality.
	Summary findings	The Member Code of Conduct forms part of the Constitution and includes the policies for registering interests and gifts and hospitality. The Audit and Governance Committee considered the LGA model Member Code of Conduct during the year, with the Council approving the model Code in April 2021. The previous Member Code of Conduct that applied during 2020/21 did not require Members to declare gifts and hospitality. The Code adopted in April 2021 includes the requirement for gifts and hospitality over £50 to be declared and declarations are publicly available on the Council's website.
	Management comment	Agreed. Audit has already noted that the currently members code of conduct requires councillors to declare any gift or hospitality received over £50 in value. This obligation will continue. Any such declaration made will continue to be made publicly available.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

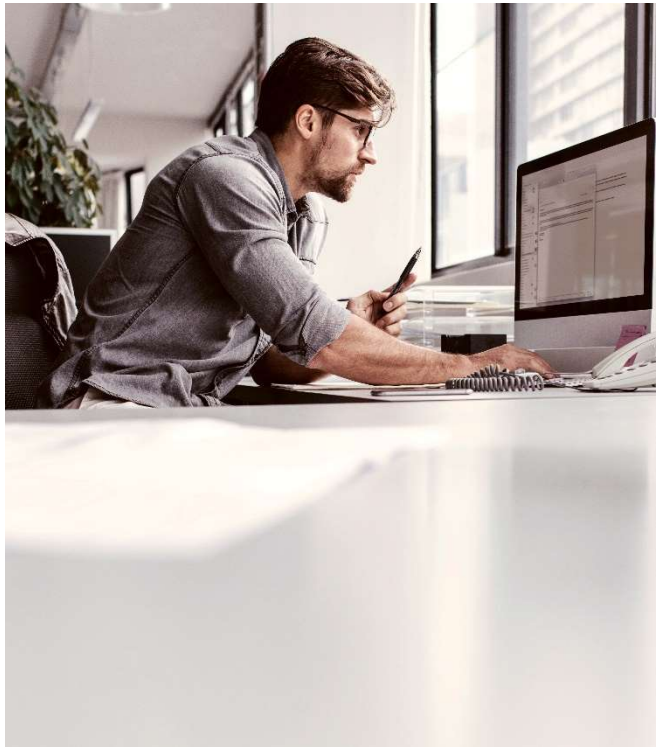
14	**Recommendation**	The officer Code of Conduct should include the requirement for interests to be recorded on the official register and that nil returns are required from senior officers.
	Why/impact	The declaration of interests is an important control to ensure impartiality, openness and transparency in decision making. The Code should be explicit in the actions required from officers.
	Summary findings	While the officer Code of Conduct contains guidance on declaring interests, it does not explicitly state that these should be recorded on the register. The Code requires that officers disclose interests to an appropriate manager. Limited declarations were made by officers in 2020/21 and there is no requirement for a confirmation of nil returns from senior officers.
	Management comment	Agreed. The officers code of conduct will be amended so that: • A nil return is required from senior officers; • The code makes explicit that any declaration of interest is recorded on the Register.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

15	**Recommendation**	The responsibility for sending reminders to staff of the requirement to declare interests, gifts and hospitality should be established and annual reminders sent.
	Why/impact	Officers should be reminded regularly of the requirement to declare interests, gifts and hospitality to ensure that registers are up to date and to ensure that an appropriate ethical culture is promoted at the Council.
	Summary findings	Members are reminded of the requirement to declare interests, gifts and hospitality through annual training on the Code of Conduct. From our work we could not find evidence that officers are reminded of the requirement to declare interests, gifts or hospitality.
	Management comment	Agreed. All staff will be sent an annual reminder of the requirement to declare any interest, gifts and hospitality.

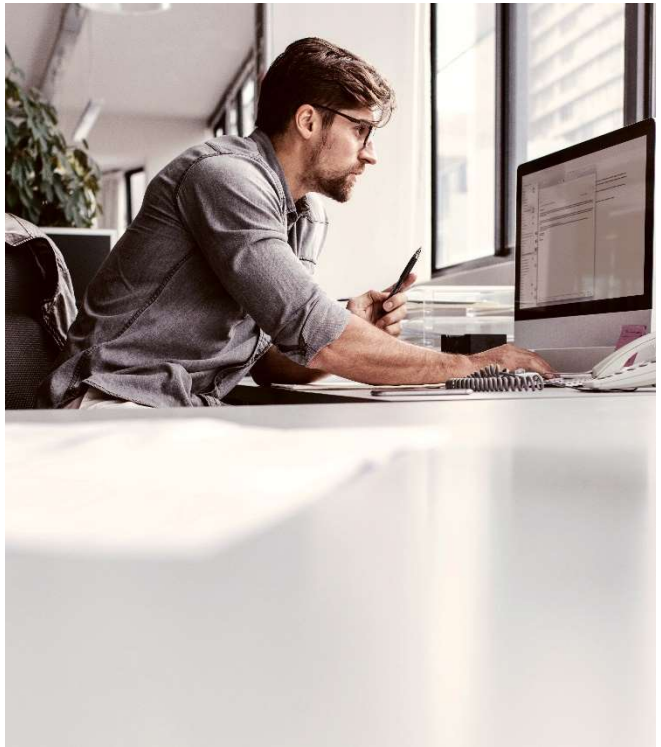


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

16	**Recommendation**	Completed Scrutiny Programme Board proformas, which include the reasons why a scrutiny request is accepted or rejected, should routinely be available to all Members.
	Why/impact	Currently the proforma is available to the Member requesting the item for scrutiny. Routinely making the decision records available to all Members will ensure maximum transparency around decision making.
	Summary findings	We have received a representation from a member of the public raising concerns around the Council's arrangements for Scrutinising the decisions made by Executive. We have reviewed the Council's Scrutiny arrangements and we have found no evidence of significant weakness. The Scrutiny Programme Board receives proforma requests from Members requesting items for scrutiny. The proforma seeks to identify the topic for scrutiny, the main issues to be addressed and the outcome that is hoped to achieve from scrutiny. The proforma contains criteria used by the Scrutiny Programme Board to determine the request and reasons if a topic is rejected.
	Management comment	Agreed. Completed Scrutiny Programme proformas will be made routinely available to all members.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance management

The Council had planned to implement a performance management framework to monitor the achievement of strategic objectives as set out in the Corporate Plan. The Annual Governance Statement recognises that the approval of this framework has been delayed due to the pandemic, but that performance management will be an integral part of the One Exeter programme. As a result there was no formal corporate approach to the reporting of key performance indicators to the Executive during 2020/21. We have made an improvement recommendation that through the One Exeter programme, the Council should ensure that key service performance indicators are agreed and reported on a quarterly basis to Executive.

We have not identified the lack of a performance management framework or formal corporate performance monitoring as a risk of significant weakness. There is evidence that Members were updated during the year with regard to key priority areas for the Council. The monthly Covid-19 updates from portfolio holders to scrutiny committees included updates on corporate priorities, including the St Sidwell's Point construction project, Sport England delivery pilot, Liveable Exeter programme, net zero Exeter and leisure services delivery. Performance was reported for key areas such as carparks, commercial rents, housing, and planning applications. The minutes of these meetings are adopted by Council and provide evidence that key areas of performance were reported during the year.

The Executive received performance information with regard to aged debt, write offs and creditor payment performance as part of the quarterly budget monitoring reports. Services also continued to undertake their own performance monitoring through the use of the Power BI tool that extracts service related system data and presents it in a dashboard format. The housing service continued to monitor performance using the benchmarking provided by Housemark, and this was reported to the Council Housing Advisory Board.

The Council does not have a data quality policy. We recommend that as part of the review and implementation of the performance management framework, the Council considers the need for a data quality policy. Such policies ensure that the data used for performance monitoring is timely, complete, reliable and consistent.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness, but the Council should ensure that it now adopts a performance management framework and formally reports key performance indicators to the Executive.

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

We have identified that the Council does undertake performance benchmarking for some service areas. The Council uses Housemark, the national benchmarking tool for housing services, the results of which are reported to the Council Housing Advisory Board. The planning service undertakes benchmarking of activity against other councils for a range of performance indicators. Grounds maintenance and street cleaning undertake benchmarking though the Association of Public Sector Excellence.

There is however no corporate wide approach to benchmarking services with other organisations to analyse performance.

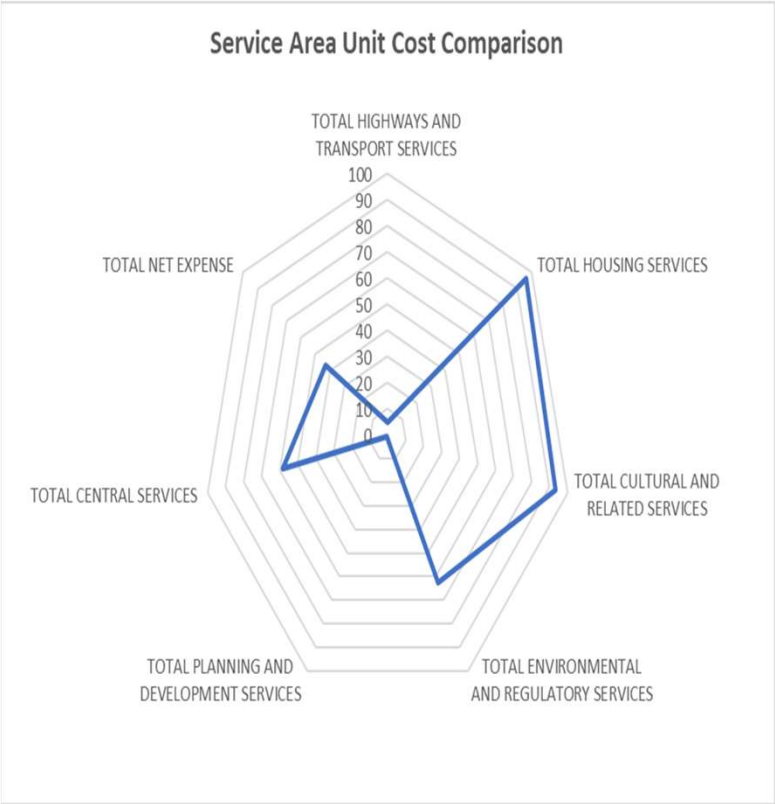
The benchmarking that we undertook using our management tool 'CFO Insights' compared the unit costs for a range of services and identified areas where the unit costs were very high in comparison to other district councils. These are summarised in the graph opposite have been discussed with the finance team.

While the charts opposite are only able to provide an indication of where costs are high, we consider that the Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved. Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign.

We have made an improvement recommendation that the Council should develop a corporate benchmarking approach to routinely compare performance, to identify areas for improvement and inform the allocation of resources.

On the spider chart a rank of 50 represents the group median. The group in this case is all district councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group.

The data is based on the 2020/21 Revenue Outturn submissions to the government.



Significant partnerships

The Council works with a variety of partners to deliver corporate objectives and priorities for the local area. There are many examples of strategies developed at partnership level being translated into actions for the Council to deliver, and evidence that partnership work is overseen by the Council.

The Council is in partnership with East Devon and Teignbridge councils to deliver IT services through Strata. The Strata Joint Executive meets regularly to consider Director reports, budget and performance monitoring and to approve business plans. The minutes for these meetings are adopted by Council. The partnership has delivered significant savings since 2015, with additional savings delivered in 2020/21 above the business plan target in order to support partners during the pandemic.

The Council approved the draft Resource and Waste Management Strategy for Devon and Torbay in December 2020. The strategy was developed by the Devon Authorities Strategic Waste Committee and includes key targets relating to achieving net zero carbon, increasing recycling and reducing waste.

The Liveable Exeter Place Board brings community figures and organisations together to collaborate and help deliver the Liveable Exeter Garden City Programme which aims to secure the funding to build 12,000 new homes. The Exeter 2040 Vision includes outcomes that go beyond district council responsibilities and includes health, care and wellbeing services and a high quality built environment. The Place Board provides a mechanism to support the delivery of the Council's corporate priorities in relation to promoting active and healthy lifestyles and building great neighbourhoods. The Place Board is also focused on the delivery of the Recovery Plan. Executive received updates on the governance structure of the Board and updates on the Recovery Plan during the year.

Exeter and Cranbrook are one of 12 local delivery pilots working on new approaches to build healthier active communities. Sport England awarded funding of £4.721m in June 2019 and Exeter City Council has embarked on a delivery programme to achieve the pilot outcomes. A further £1.883m has been awarded to continue delivery of the programme to March 2025. The focus is on 20 geographic areas with the highest concentrations of those most at risk from inactivity and poor health.

The Council reviewed its safeguarding policy in December 2020 which had been updated to reflect best practice. The policy contains an action plan that includes safeguarding training for Members and officers, and supports corporate priorities relating to neighbourhoods and active and healthy lifestyles. The Council has a Corporate Safeguarding Group that provides governance and works with the Devon Safeguarding Adults Partnership, Devon Children and Families Partnership and Safer Devon Partnership to ensure best practice is followed.

The Council maintains a partnership register which confirms the purpose, membership, lead officer, financial commitment and exit strategy for each partnership. Partnership guidance is available to officers that sets out the definition of a partnership, approval process, partnership agreements and the partnership register.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.

Procurement

The Council is part of the Devon District Procurement Authorities partnership, approving the Procurement Strategy 2019-22 in December 2019. The strategy includes an action plan with four priorities relating to contract management, sustainable procurement, engaging with local businesses and behaving commercially. The Strategy states that the Devon District Procurement Group will review progress made against the plan quarterly.

Through our work we have confirmed that there is no quarterly review of the progress made against the Procurement Strategy by the Devon District Procurement Group. Progress is reviewed when the Strategy is updated, with the last review carried out relating to the 2015-18 strategy in December 2019. The Council's procurement team does monitor the progress made against the Strategy internally, but this is not formally reported to Members.

We have made an improvement recommendation that the Devon District Procurement Group should regularly review the progress made by each council in implementing the Procurement Strategy as was the intention when the Strategy was approved. The results of the review should be reported to Members.

From our review of internal audit's work relating to procurement and contract management,

and through discussions with officers, we note that procurement and contract management training has been delayed due to the pandemic. Contract management is an important part of the procurement cycle and we recommend that the Council should now ensure that training is rolled out to appropriate officers so that they are aware of the requirements of the procurement and contract procedures, which were updated in December 2021.

Our work has not identified any areas of significant weakness regarding the Council's procurement arrangements.

Improvement recommendations

Improving economy, efficiency and effectiveness

17	**Recommendation**	Through the One Exeter programme, the Council should ensure that key service performance indicators are agreed and reported on a quarterly basis to Executive.
	Why/impact	Performance monitoring information should be reported to Executive to allow the progress in achieving strategic priorities to be reviewed and areas for service improvement identified.
	Summary findings	The Council had planned to implement a performance management framework to monitor the achievement of strategic objectives as set out in the Corporate Plan. The Annual Governance Statement recognises that the approval of this framework has been delayed due to the pandemic, but that performance management will be an integral part of the One Exeter programme. As a result there was no formal corporate approach to the reporting of key performance indicators to the Executive during 2020/21.
	Management comment	Agreed – a performance management framework, including updates on the actions in the 2022-26 corporate plan and key performance indicators, will be reported regularly to Executive from January 2023.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

18	**Recommendation**	The Council should consider the need for a data quality policy as part of the review and implementation of the performance management framework.
	Why/impact	Data quality policies ensure that the data used for performance monitoring is timely, complete, reliable and consistent.
	Summary findings	The Council does not have a data quality policy.
	Management comment	Agreed – the council will revisit and publish its Data Quality Strategy.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

19	**Recommendation**	The Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved or services improved.
	Why/impact	Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement. Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign.
	Summary findings	We have identified that the Council does undertake performance benchmarking for some service areas. There is however no corporate wide approach to benchmarking services with other organisations to analyse performance.
	Management comment	The Council uses APSE for targeted benchmarking of frontline services and has undertaken significant benchmarking in respect of the HRA. The Council will look for cost effective ways to expand benchmarking across services.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

20	**Recommendation**	The Devon District Procurement Group should regularly review the progress made by each council in implementing the Procurement Strategy, as was the intention when the Strategy was approved. The results of the review should be reported to Members.
	Why/impact	Members should be kept informed of the progress made in implementing the agreed procurement priorities contained within the Procurement Strategy.
	Summary findings	The Council is part of the Devon District Procurement Authorities partnership, approving the Procurement Strategy 2019-22 in December 2019. The Strategy includes an action plan of procurement priorities. The Strategy states that the Devon District Procurement Group will review progress made against the plan quarterly. There is no quarterly review of the progress made against the Procurement Strategy by the Devon District Procurement Group. Progress is reviewed when the Strategy is updated, with the last review carried out relating to the 2015-18 Strategy in December 2019. The Council's procurement team does monitor the progress made against the Strategy internally, but this is not formally reported to Members.
	Management comment	Agreed. This is in progress, with the Devon Districts Group already gathering data for the performance against strategy. An annual report to Members will be added to the committee work plan.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

21	**Recommendation**	The Council should ensure that procurement and contract management training is rolled out to appropriate officers.
	Why/impact	Contract management is an important part of the procurement cycle. Officers involved with the procurement and contract management cycle should be kept up to date of the requirements of the procurement and contract procedures, which were updated in December 2021.
	Summary findings	From our review of internal audit's work relating to procurement and contract management, and through our discussions with officers we note that officer procurement and contract management training has been delayed due to the pandemic.
	Management comment	Agreed. Training has been identified via LGA and work is underway to identify the appropriate Officers to attend this. Completion by Quarter 4 2022/23.

The range of recommendations that external auditors can make is explained in Appendix C.

Opinion on the financial statements

Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 21 March 2022.

Audit Findings Report

More detail can be found in our Audit Findings Report, which was published and reported to the Council's Audit and Governance Committee on 9 March 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit.

Preparation of the accounts

The revised deadline for approving the draft statement of accounts in accordance with the Accounts and Audit (Amendment) Regulations 2021 was 31 July 2021.

Issues arising from the accounts:

No material adjustments were required to the financial statements. One disclosure adjustment in relation to the collection fund adjustment account was identified.

We have made a recommendations that:

- all senior officers should be required to submit an annual declaration of interests;
- the user accounts identified with administration privileges are reviewed;
- no further journal postings are made via superuser IDs;
- the treatment of MRP on capital loans is reassessed;
- the latest available information is used by the valuer to support investment property valuations;
- information on valuer's judgements regarding complex investment properties is provided.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair,
- Prepared in accordance with relevant accounting standards,
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness at the planning stage, see pages 9 to 22 for more details.	We reviewed the Council's arrangements for financial planning and budget setting as part of our standard financial sustainability procedures.	No significant weaknesses identified	Appropriate arrangements in place, seven improvement recommendations raised.
Governance was not identified as a potential significant weakness at the planning stage, see pages 23 to 36 for more details. A risk of significant weakness was identified during our detailed VFM work in relation to Exeter City Living governance arrangements.	As part of our standard governance procedures we have reviewed the governance arrangements for Exeter City Living.	A significant weakness has been identified in relation to the governance arrangements for Exeter City Living.	One key recommendation raised and nine improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 37 to 45 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, five improvement recommendations raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Pages 6 - 7
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 16 – 22 Pages 28 – 36 Pages 41 – 45

Appendix D – Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We have not issued any statutory recommendations.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We have not issued a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We have not made an application to the Courts.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We have not issued any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We have not applied for a judicial review.

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