



## **Exeter City Council**

VFM conclusion 2009-10

Last updated 18 August 2010

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# 1 Introduction

## **Introduction**

- 1.1 In carrying out our audit, we comply with statutory requirements governing our duties, in particular, the Audit Commission Act 1998 and the Code of Audit Practice (the Code).
- 1.2 The Code of Audit Practice emphasises the respective responsibilities between audited bodies and their auditors. The Council is responsible for putting in place proper arrangements for the preparation of its accounts, governance of its affairs and for making adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources. We are required to form an opinion on the Council's annual financial statements and whether the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.
- 1.3 In May 2010, the Government announced that the Comprehensive Area Assessment (CAA) would be abolished. Following this the Audit Commission confirmed that our work for the Use of Resources assessment (UoR) should cease with immediate effect.
- 1.4 Whilst there will not be a scored UoR assessment for 2009-10, the work completed has been used to inform our value for money conclusion.
- 1.5 In August 2010 the Audit Commission set out its new approach to assess Councils' value for money arrangements. From 2010-11, our assessment will be based on a more targeted approach, focussing on specific local risks and issues, concentrating on the Council's arrangements for securing financial resilience and prioritising resources within tighter budgets.
- 1.6 The areas for further improvement identified within this report have, therefore, been framed to address these areas.

## **Scope**

- 1.7 We have completed the work in connection with our value for money conclusion in accordance with our agreed audit strategy as set out in our Annual Fee Letter presented to the Scrutiny Committee - Resources on 25 March 2009. The scope of our audit was an assessment of the Council's arrangements for:
  - financial management;
  - commissioning and governance; and
  - management of natural resources, assets and people.

## Overall conclusions

### Financial management

- 1.8 We have identified that the Council has made some strong progress in implementing a range of improvements following our review last year. These have resulted in a strengthening of the Council's financial management arrangements.
- 1.9 The Council achieved an underspend on £1.7m for 2009-10. Overall, the Council's budget setting process continues to be robust where it has incorporated the views of local residents, closely monitoring its costs and delivering against planned efficiency targets.
- 1.10 It has been able to demonstrate that improvements in value for money have been achieved in corporate services, but there remains scope for benchmarking to be used more extensively to identify high cost services and areas for potential savings.
- 1.11 The Statement of Accounts and supporting working papers continue to be prepared to a high standard and in accordance with statutory deadlines. Strong progress has been made towards the implementation of International Financial Reporting Standards and the Council is on track to meet the required deadlines.

### Commissioning and governance

- 1.12 The Council has continued to improve the governance arrangements it has in place through the use of a member development committee and personal development plans for members. There remains scope for the Council to better understand its governance of partnership arrangements but this should be addressed by the review currently in progress.
- 1.13 Internal control arrangements continue to be of a good standard and will be further enhanced through the Council's current work to introduce operational risk registers across all service areas.

### Management of natural resources, assets and people

- 1.14 The Council has established a clear strategy for the management of natural resources, with a good track record of achieving reductions in resource use at the Civic Centre. Environmental issues are promoted widely both within and outside the organisation. The key action for the Council in this area is to ensure that targets for the reduction in the use of natural resources include all key Council buildings and resources used by partner organisations, where relevant.

## Use of this report

- 1.15 This report has been prepared to advise you of the matters arising from our audit work in relation to our value for money conclusion and should not be used for any other purpose or be given to third parties without our prior written consent.
- 1.16 Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.
- 1.17 We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

### **The way forward**

- 1.18 We have discussed the recommendations with the Director of Corporate Resources and will report the actions management have taken at the conclusion of our audit, in our Annual Audit Letter.

### **Acknowledgements**

- 1.19 We would like to record our appreciation for the assistance and co-operation provided to us during our work by the Council's staff.

**Grant Thornton UK LLP**

August 2010

## 2 Detailed findings

### **Financial management**

- 2.1 This theme focuses on sound strategic and financial management, that is, whether the Council plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population.

### **Financial planning**

- 2.2 The Council's budget-setting process continues to be robust and its reserve balances have been brought down, in line with the plans set out in the medium-term financial strategy. The Council has consulted widely with service users to inform the budget for 2010-11, through an online budget simulator, surveys and public events, and this feedback was presented to members to inform the budget discussions.
- 2.3 The Council has a track record of allocating resources to services identified as being high priority by local residents. A good example of this being street cleansing where the Council's continued investment has resulted in only 23% of customers identifying this as an area most in need of improvement. This has placed the Council in the top quartile of this measure despite a lower cost per head than its nearest neighbours.
- 2.4 Exeter City Council continues to deliver against its budget and achieve planned efficiency savings, with an underspend on general fund expenditure of £1.7m in 2009-10 and securing over £600,000 of efficiency savings, the equivalent of £17 per band D dwelling.
- 2.5 The Council has reviewed the format of its service plans in 2009-10 to demonstrate a stronger link between financial and operational performance and the Council's strategic objectives, and this revised format is to be adopted by all departments.

### **Understanding costs**

- 2.6 Officers and members can demonstrate a good understanding of the costs the Council incurs and the extent to which this correlates with users needs through the discussions on street cleansing during budget setting.
- 2.7 To complement this, officers use the Audit Commission's Value for Money profiles, as well as proactively commissioning external reviews of areas known to be high cost, such as housing benefits. These reviews have identified areas of good practice, for example the low cost of processing invoices, as well as areas for improvement such as the administration costs for benefit claims.
- 2.8 The Council uses this understanding of costs to inform decision-making, for example the decision to restructure the Archaeological Field Unit. Whilst departments are encouraged to identify opportunities to reduce costs, appropriate resources are still made available to address issues and improve priority areas, for example providing additional staff in the benefits team to ensure that the increasing caseload can be processed without impacting on customer satisfaction. Planned efficiency savings for the year have been approved and progress in delivering these is monitored by the Executive.

- 2.9 Whilst there is good practice in reviewing costs associated with corporate services, there remains scope for other departments to use benchmarking more effectively, for example through the use of benchmarking clubs.

#### **Financial reporting**

- 2.10 Financial information is available to budget holders in real-time and is reported to members on a quarterly basis, with assurance provided by internal audit that the budgetary control arrangements in place are sound. Financial out-turn reports presented to members and management are accompanied by a separate performance management report which sets out a range of performance indicators. To improve interpretation of this information, the Council has revised the format of its service plans to more closely link financial and operational performance, with clear links to the Council's strategic objectives.
- 2.11 The Council's accounts have been prepared in accordance with statutory requirements and both the accounts and working papers are prepared to a high standard, with only minor adjustments being required to the 2008-09 accounts, none of which affected the general fund balance. Strong progress has been made towards the implementation of International Financial Reporting Standards (IFRS), as demonstrated by Exeter being one of a minority of organisations rated as 'green' in the Audit Commission's assessment of IFRS readiness. The Council remains on track to meet the required deadlines.

#### **Opportunities for improvement**

- 2.12 As a result of our review of this theme, we have identified the following areas for improvement:

##### **Securing financial resilience**

- The revised format for service plans should be adopted by all departments.

##### **Prioritising resources within tighter budgets**

- Benchmarking, linked to performance data and user satisfaction should be used across the Council to help determine where efficiency savings can be made.

#### **Commissioning and governance**

- 2.13 This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people.

##### **Commissioning and procurement**

- 2.14 The Council's 'Sustainable Procurement and Commissioning Strategy' has been informed by a detailed analysis of social, economic and environmental issues and the procurement strategy supports achievement of the Exeter Vision priorities, for example the use of sustainable procurement to ensure that the city is one that cares for its environment.
- 2.15 Stakeholders are actively involved in the procurement process, for example tenant involvement in the tendering process for the housing repairs service and engagement with service users to inform the award of the leisure management contract. The Council proactively engages with local businesses through organisations such as the Exeter Chamber of Commerce and the Federation of Small Businesses and builds the capacity of local suppliers through its flagship 'Green Accord' scheme.

- 2.16 Where improved value for money can be achieved, the Council is outward looking and works with other organisations both locally and nationally, for example the procurement of insurance and bailiff services.
- 2.17 Now that there is clarity over the Council's future role and functions, it should develop a programme to review its current arrangements for providing services and critically assess the various options available to further improve value for money.

#### **Use of data**

- 2.18 The Council recognises the importance of the data it holds, with data protection and data quality both explicitly included on the corporate risk register. Internal audit carry out a comprehensive review of performance indicators as part of their risk-based programme of audits and the findings from these reviews are reported to the Scrutiny Committee - Resources.
- 2.19 Performance indicators are reported by corporate priority to the Scrutiny committees allowing the delivery of identified priorities to be clearly monitored. Targets are set for half year and full year performance and explanations are sought from officers where performance falls short of expectations. As in previous years, our review of the Council's Housing and Council Tax Benefit subsidy claim did not identify any concerns over the quality of the underlying data
- 2.20 Data security is promoted internally and the Council has met the criteria set out in the Code of Connection and is working towards accreditation under ISO17799. An Information Security Forum, involving IT services and internal audit, meets quarterly to discuss incidents and ensure that the Council is providing a secure environment for its data.

#### **Good governance**

- 2.21 The Council has continued to improve its governance arrangements, for example through the use of a member development committee and personal development plans to identify training needs for members. Development opportunities can be easily identified as the roles of members and officers are clearly set out in the constitution. Close working relationships between officers and members are promoted through the member and officer protocol.
- 2.22 Members' allowances, expenses and declarations of interest are published on the internet along with details of the Standards committee, whose work is summarised in an annual report taken to the committee and published on-line. The Council's constructive approach to dealing with complaints was praised by the Local Government Ombudsman and improved arrangements have been implemented since the one complaint that was upheld during 2008-09.
- 2.23 The purpose of governance is to ensure the Council and its partners can fulfil their purpose and achieve intended outcomes for the local community. The Council's strategic objectives are set out in the corporate plan which link to aspects of the Exeter Vision and there are clear examples of the Council working to achieve these, for example a reduction in the number of households in temporary accommodation and an increase in the recycling rate.
- 2.24 Our review has identified that there is scope to further improve the arrangements in place through ensuring the development plans are in place for all members and that these are actively used to promote training opportunities. In addition, the Council's ongoing review of its partnerships should be used to identify areas where governance arrangements could be enhanced, for example through the introduction of terms of reference.

### **Internal control**

- 2.25 The Council has a risk management policy in place, supported by a detailed corporate risk register which is updated by the officer risk management group on a six-monthly basis subsequent to discussions held at Directorate Management Team meetings.
- 2.26 A proactive approach is taken to preventing and detecting fraud, with all matches identified by the National Fraud Initiative exercise investigated and cleared. Fraud considerations are included in high risk internal audit reviews such as housing benefits. The counter-fraud arrangements in place are widely promoted to staff and the process for reporting fraud is clearly shown on the Council's external website.
- 2.27 The Council's internal audit service is fully compliant with CIPFA's Internal Audit Standards and it actively contributes to the development of the CIPFA audit manual used nationally. The work of internal audit concluded that key systems operated soundly and informs the annual governance statement, which is written to support the six core principles set out by CIPFA in the 'Good Governance Standard for Public Services'.
- 2.28 In order to further enhance the risk management arrangements in place, the Council should ensure that the roll-out of operational risk registers continues and that the controls in place and residual risk score are regularly updated. There is also the opportunity to strengthen the corporate risk register by ensuring that all relevant partnership risks are included once the Council's review of its partnerships is complete.

### **Opportunities for improvement**

- 2.29 As a result of our review of this theme, we have identified the following areas for improvement:

#### **Securing financial resilience**

- The corporate risk register should be supported by regularly updated operational registers and should include relevant risks identified through the Council's ongoing review of partnership arrangements.

#### **Prioritising resources within tighter budgets**

- Following the Government's decision not to change the principal functions of the Council, the current arrangements for service provision should be subject to periodic review and market testing to ensure that savings are maximised.
- The financial performance and governance arrangements of key partnerships should be monitored more formally on a regular basis.

### **Management of natural resources, assets and people**

- 2.30 Our assessment of this theme was being phased in over a three-year period. In 2009-10 our work focussed on whether the Council understands, and can quantify its use of, natural resources and whether it is managing performance to reduce its impact on the environment.
- 2.31 The Council has included its environmental impact in the Exeter Vision and the corporate plan, with more detailed strategies, such as the recycling plan, supporting the delivery of these objectives. Environmental issues are promoted across the organisation through the nomination of staff 'environmental champions' and outside of the Council through the promotion of the Green Accord accreditation framework for suppliers. The Council's own procurement processes also consider environmental criteria, where relevant, as part of the assessment matrix used to evaluate tendered contracts.

- 2.32 Action plans are in place to support strategy documents and these are monitored annually along with performance against an agreed set of indicators. Significant improvements have been achieved, for example reductions in paper and water use and a reduction in waste produced at the Civic Centre.
- 2.33 However, the main focus of targets set by the Council relate to the Civic Centre, rather than across the estate and there is scope for further savings to be made by considering resource use in other Council buildings. For example, a significant proportion of the gas and electricity used in providing services to the public is incurred at leisure facilities, but the current leisure management contract does not require this information to be collected. We recognise that this is specifically being included in the new contract to be let in 2010-11.

#### **Opportunities for improvement**

- 2.34 As a result of our review of this theme, we have identified the following areas for improvement:

##### **Prioritising resources within tighter budgets**

- Data on the use of natural resources should be collected from all significant buildings to ensure that Council understands the full extent of its resource use.
- Targets adopted for the reduction in the Council's use of natural resources should be applied across the organisation and should involve partner organisations where relevant.
- The impact, in both economic and environmental terms, of projects implemented through the Carbon Management Strategy should be monitored to allow an objective assessment of the success of each project.

## A Action plan

2.35

The following recommendations arise from our work and should be considered in the context of significant change as a result of a reduction in resources going forward.

Recommendations	Priority	Management comments	Responsible officer	Implementation date
<p><b>Financial management - Securing financial resilience</b></p> <p>The revised format for service plans should be adopted by all departments.</p>	<p>High</p>			
<p><b>Financial management - Prioritising resources within tighter budgets</b></p> <p>Benchmarking, linked to performance data and user satisfaction should be used across the Council to help determine where efficiency savings can be made.</p>	<p>Medium</p>			
<p><b>Commissioning and governance - Securing financial resilience</b></p> <p>The corporate risk register should be supported by regularly updated operational registers and should include relevant risks identified through the Council's ongoing review of partnership arrangements.</p>	<p>Medium</p>			

Recommendations	Priority	Management comments	Responsible officer	Implementation date
<p><b>Commissioning and governance - Prioritising resources within tighter budgets</b></p> <p>Following the Government's decision not to change the principal functions of the Council, the current arrangements for service provision should be subject to periodic review and market testing to ensure that savings are maximised.</p>	Medium			
<p><b>Commissioning and governance - Prioritising resources within tighter budgets</b></p> <p>The financial performance and governance arrangements of key partnerships should be monitored more formally on a regular basis.</p>	High			
<p><b>Management of natural resource - Prioritising resources within tighter budgets</b></p> <p>Data on the use of natural resources should be collected from all significant buildings to ensure that Council understands the full extent of its resource use.</p>	Medium			
<p><b>Management of natural resources - Prioritising resources within tighter budgets</b></p> <p>Targets adopted for the reduction in the Council's use of natural resources should be applied across the organisation and should involve partner organisations where relevant.</p>	Medium			

Recommendations	Priority	Management comments	Responsible officer	Implementation date
<p><b>Management of natural resources - Prioritising resources within tighter budgets</b></p> <p>The impact, in both economic and environmental terms, of projects implemented through the Carbon Management Strategy should be monitored to allow an objective assessment of the success of each project.</p>	<p>Medium</p>			



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