

# Exeter City Council

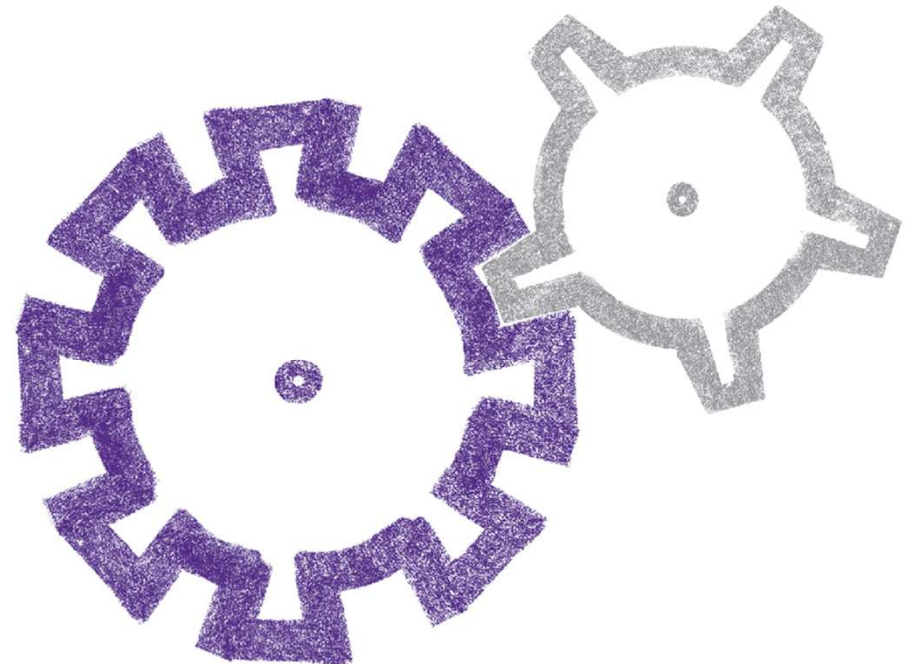
## Review of the Council's Arrangements for Securing Financial Resilience

---

September 2012

Barrie Morris  
Director  
T +44 (0)117 305 7708  
E [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

Julie Masci  
Manager  
T +44 (0)29 2034 7506  
E [julie.masci@uk.gt.com](mailto:julie.masci@uk.gt.com)



# Contents

<b>1 Executive Summary</b>	<b>page 3</b>
<b>2 Key Indicators</b>	<b>page 8</b>
<b>3 Strategic Financial Planning</b>	<b>page 12</b>
<b>4 Financial Governance</b>	<b>page 16</b>
<b>5 Financial Control</b>	<b>page 20</b>

<b>Appendix - Key indicators of financial performance</b>	<b>page 25</b>
---	----------------

**1 Executive Summary**

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

# Executive Summary

## Our approach

### Value for Money Conclusion

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

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

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

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

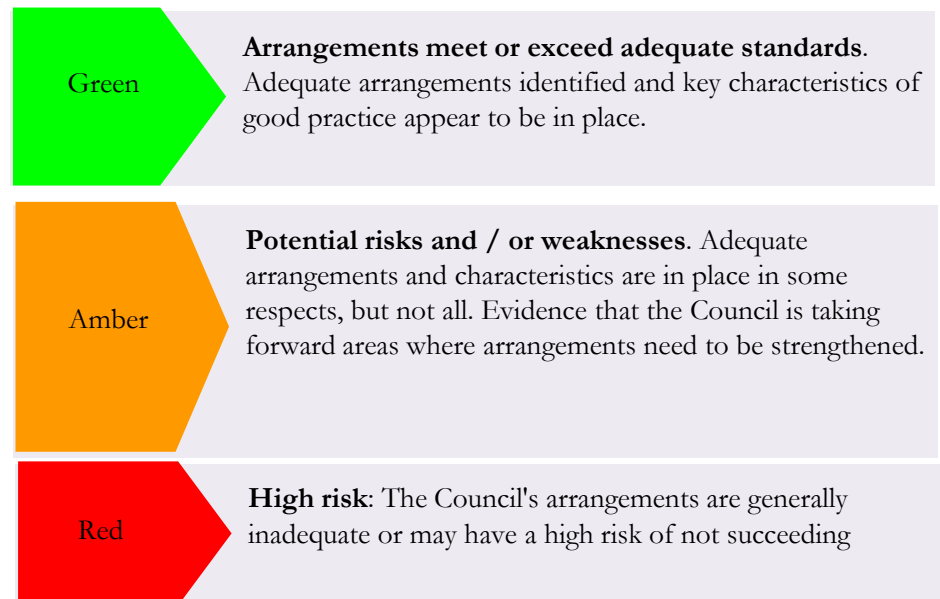
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

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

### Overall Conclusion

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

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



# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. Communities and Local Government (CLG) funding was reduced by 26% over the period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31 January 2011 with the debate and approval by the House of Commons on 9 February 2011.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.



### Local Context

Exeter is a historic city in the county of Devon with an estimated population of 117,800 citizens. Exeter is seen as an increasingly attractive place to do business with major firms such as the Met Office choosing to relocate to the area and the John Lewis Partnership opening a new store in October 2012, reinforcing the City's status as a major regional shopping destination. The City also has good rail, road and airport transport links and attractive shopping facilities.

The SR10 spending announcements have already required significant cuts to financial support from Government. For Exeter, this has resulted in reductions in formula grant of approximately 23% between 2010-11 and 2012-13. The Council's Executive approved its budget strategy in December 2011. This strategy set out the likely level of available resources and identified spending pressures and the revised Medium Term Financial Plan, indicating that the Council needed to further reduce its revenue budget by about £2.7m over the next four years from 2012-13 to 2015-16.



# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Resilience</b>		
<b>Key Indicators of Performance</b>	<ul style="list-style-type: none"> <li>In comparison to the Audit Commission's nearest neighbours the for Council, the majority of the indicators are in line with the average and consistent with the trends indicated by other Councils.</li> <li>The Council does however have low liquidity levels compared to its nearest neighbours and will need to ensure that it monitors its liquidity levels closely during the SR10 period to ensure financial resilience is maintained.</li> <li>The Council is able to consistently deliver an underspend in a year where savings of £2.1m have been achieved and has maintained its useable reserves.</li> <li>Average sickness absence rates are reducing for the Council and remain an area of focus.</li> </ul>	 <b>Green</b>
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"> <li>The Council has a robust process in place for determining its Medium Term Financial Plan and annual budget.</li> <li>The Council has effective arrangements for ensuring that the MTFP and budgets are kept under regular review and are responsive to changing circumstances and emerging financial risks.</li> <li>Whilst we found that the Council has a good understanding of the key assumptions used during the financial planning process, there is scope to improve the level of sensitivity analysis and scenario planning within the MTFP to assess the potential impact on the Council of changes in key economic factors and assumptions.</li> </ul>	 <b>Green</b>

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Resilience</b>		
<b>Financial Governance</b>	<ul style="list-style-type: none"> <li>• The Council has strong financial stewardship arrangements in place at both directorate and committee level.</li> <li>• There is an appropriate level of senior management and member level engagement in the financial management process with good engagement with stakeholders.</li> <li>• Whilst the Council has a good awareness of those service areas which are high cost and/or are under performing, there does not appear to be a routine mechanism for monitoring and understanding unit costs within services, for example through use of benchmarking.</li> <li>• The Council has historically managed its budgets well and delivered good financial performance. Timely, informative budget outturn information is provided to officers and members, highlighting those areas where issues have been identified and required action is needed.</li> </ul>	 <b>Green</b>
<b>Financial Control</b>	<ul style="list-style-type: none"> <li>• The Council has well established budget setting processes that encourages ownership from budget holders supported by appropriate training provided to officers and members. The Council has a good track record in managing budgets on a service by service basis.</li> <li>• Delivery of in year savings has been effectively managed, enabling the Council to achieve 90% of the planned savings identified which supported the delivery of a small underspend of £92,528 on the General Fund budget.</li> <li>• Overall, we have concluded that that the Council generally has good systems of internal control and its Internal Audit Service comply with the requirements set out in CIPFA's Code of Practice for Internal Audit. Whilst some improvement opportunities were identified in our interim audit report, these were not considered significant matters that would prevent us from taking assurance from their work.</li> </ul>	 <b>Green</b>

# Executive Summary

## Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"> <li>The published MTFP should include sensitivity analysis and scenario planning to model the potential impact of changes in key assumptions.</li> </ul>	Assistant Director Finance	February 2013	Agreed - The MTFP model used for the 2013/14 budget will incorporate sensitivity analysis based upon different scenarios
<b>Financial Governance</b>	<ul style="list-style-type: none"> <li>The Council should look to ensure that key service unit costs are identified for external benchmarking and, where there are gaps in sources of benchmarking, the Council works with other local authorities to establish new benchmarking groups.</li> </ul>	Assistant Director Finance	January 2013	Agreed - The Council has already in the past made use of benchmarking costs using information published by the Audit Commission. It has also made use of benchmarking for key services including revenues and benefits and housing. We will build upon this existing work to see if other key services can be benchmarked from other sources.



1 Executive Summary

**2 Key Indicators**

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

## Key Indicators

### Introduction

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

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



The relevant graphs and charts to support the Council's performance for each of these indicators is set out in the Appendix at the end of this report.

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




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

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<p><b>Performance Against Budget</b></p>	<ul style="list-style-type: none"> <li>The 2011-12 General Fund net revenue budget underspent by £92,528 based on the provisional outturn. This is in the context of the Council realising £2.181m (90%) savings and indicates a good performance for the year.</li> <li>The Housing Revenue Account (HRA) reported an overall increase in working balances of £1.875m. This was due to a significant underspend in the HRA capital programme and the fact that the capital programme has been financed from other capital resources. There has also been additional income from rents in the year.</li> <li>Capital expenditure in the year amounted to £13.123m, a reduction of £3.181m on the planned figure of £16.305m. The actual expenditure during 2011/12 represents 80.5% of the total approved for the revised Capital Programme. Spending performance has improved slightly on the previous year (79.8%).</li> <li>During the year, the Government issued a capitalisation direction to the Council allowing them to capitalise £460,157 of redundancy costs.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>
<p><b>Reserve Balances</b></p>	<ul style="list-style-type: none"> <li>Between 2007-08 and 2010-11 the Council has significantly reduced the value of its useable reserves (as a proportion of Gross Revenue Expenditure) from 0.39 to 0.03.</li> <li>The Council has reported useable reserves of £17.277m as at 31 March 2012, with £4.285m representing the General Fund balance. The general fund balance of £4.285m represents 30.5% of the Council's net revenue budget for 2011-12. The Medium Term Financial Plan (MTFP) forecasts a continued reduction to general fund levels during 2012-13, to £3.191m and is forecast to reduce to the minimum recommended level of £2m by the end of 2015-16.</li> <li>The Council had the second lowest level of useable reserves in 2010-11 of its Nearest Neighbours benchmarking group following the Council's continued use of its reserves over the last few years.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

## Key Indicators

Area of focus	Summary observations	Assessment
<p><b>Liquidity</b></p>	<ul style="list-style-type: none"> <li>Liquidity has reduced at Exeter from 1.8:1 in 2007 to 0.5:1 in 2010. For 2007 to 2009 Exeter has followed the lower quartile trend but, in 2010, Exeter fell below the lower quartile. The Council will need to ensure that it monitors its liquidity levels closely during the SR10 period to ensure financial resilience is maintained.</li> <li>The Council's internal investment strategy has been tightly restricted to UK only banking operations which has provided the Council with challenges in relation to locating suitable investors. The Council is planning to open a Money Market Fund which is AAA rated and offers around 0.70%, and also plans to lend to other Local Authorities and the Debt Management Office. The rates of return offered range between 0.25% and 0.3%, which will continue to have an adverse impact of the interest earned by both the General Fund and the HRA.</li> <li>The Council Tax collection rate has decreased slightly in comparison with the previous year. The collection rate for 2011/12 was 97.4% compared with 97.5% in 2010/11. Sundry debtors over 30 days old have decreased over the year from £1.998m to £1.719m, a reduction of £279,000. The percentage of creditors paid within 30 days was 96.64% for 2011/12 compared with 94.35% for 2010/11.</li> </ul>	 <p>Amber</p>
<p><b>Borrowing</b></p>	<ul style="list-style-type: none"> <li>Prior to HRA self-financing settlement, the Council has historically had no long term borrowing, as such the ratio of long-term borrowing to long-term assets was 'zero' putting the Council in the lowest quartile.</li> <li>HRA self-financing reforms relating to the housing subsidy system has resulted in the Council being allocated a share of the national housing debt. The Council has made a one-off debt settlement to the Department for Communities and Local Government of £56.884m on 28 March 2012 as part of its implementation of the HRA self-financing regime. The Council has borrowed from the Public Works Loan Board to finance this settlement.</li> </ul>	 <p>Green</p>
<p><b>Workforce</b></p>	<ul style="list-style-type: none"> <li>Absence figures for 2011-12 have fallen to 6.76 days from 8.63 days last year, which is a notable improvement. The average number of sick days for public sector workers in 2011-12 was 8.6 days, per FTE.</li> <li>Given the significant organisational change that is taking place during 2011-12 and 2012-13, it is important for senior management to continue to carefully manage workforce issues as they arise and maintain a robust approach to sickness absence monitoring for the downward trend to continue.</li> </ul>	 <p>Green</p>

1 Executive Summary

2 Key Indicators

**3 Strategic Financial Planning**

4 Financial Governance

5 Financial Control

**Appendices**

Appendix A - Key indicators of financial performance

## Strategic Financial Planning

### Key indicators of good strategic financial planning

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

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



# Strategic Financial Planning

## Medium Term Financial Plan

Area of focus	Summary observations	High level risk assessment
<p><b>Focus of the MTFP</b></p>	<ul style="list-style-type: none"> <li>The SR10 spending announcements have already required significant cuts to financial support from Government. For Exeter, this has resulted in reductions in formula grant of approximately 23% between 2010-11 and 2012-13.</li> <li>The Council's Executive approved its budget strategy in December 2011. This strategy set out the likely level of available resources and identified spending pressures and the revised Medium Term Financial Plan, indicating that the Council needed to further reduce its revenue budget by about £2.7m over the next four years from 2012-13 to 2015-16.</li> <li>The Council agreed its 2012-13 revenue and capital budget in February 2012, following consultation and scrutiny. This included a revised MTFP assessment indicating required budget reductions over the four year period of £3.167m.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Scope of the MTFP and links to annual planning</b></p>	<ul style="list-style-type: none"> <li>The Council ensures that there is a strategic approach to financial planning through the MTFP process. This is updated on a regular basis.</li> <li>The key elements of the MTFP forms part of the Council's budget strategy that is approved by Council each year.</li> <li>Our discussions with officers indicated that, whilst individual services undertake some modelling of demand for services to understand the impact on future income and spending levels, this information is still not consolidated within the MTFP, potentially limiting Members ability to understand in detail all the challenges the Council faces in a comprehensive way.</li> <li>Whilst the MTFP is very clear on detailing the risks and uncertainties faced by the Council over the period of the plan, there is scope to develop sensitivity analysis on the key assumptions and uncertainties within the MTFP and what the potential impact could be to the Council in the event that these change over the period covered by the plan.</li> </ul>	<p style="text-align: center;">● Amber</p>
<p><b>Adequacy of planning assumptions</b></p>	<ul style="list-style-type: none"> <li>The Council's focus remains on year one of the MTFP. The MTFP sets out the key assumptions that have been made for the 2012-13 budget year and the Council's rationale supporting these assumptions.</li> <li>Assumptions in future years of the MTFP are less well defined due to continuing uncertainties relating to the Government's spending plans for 2013-14 and beyond. However, the MTFP does highlight these uncertainties and the Council's arrangements to ensure that it mitigates these as well as possible.</li> </ul>	<p style="text-align: center;">● Green</p>

# Strategic Financial Planning

## Medium Term Financial Plan

Area of focus	Summary observations	High level risk assessment
<p><b>Review processes</b></p>	<ul style="list-style-type: none"> <li>The Council has good arrangements in place for keeping both the MTFP and annual budget under review.</li> <li>Regular updates are provided to the Scrutiny Committee - Resources and both the Executive and Council on delivery against plan, anticipated risks and proposed actions where appropriate.</li> </ul>	 <b>Green</b>
<p><b>Responsiveness of the Plan</b></p>	<ul style="list-style-type: none"> <li>There is a clear recognition by management that economic factors and assumptions may change and the MTFP, budget strategy and in year budget monitoring arrangements are regularly refreshed to keep up to date with these changes.</li> <li>The Council will need to ensure that the Plan remains responsive, given the scale of the financial challenges faced and the financial uncertainty that remains within the timeframe of the Plan. In the short term this should include retention of business rates, changes brought about by universal benefits, effective treasury management and the impact of the 10% funding reduction in Council Tax benefit.</li> <li>The predominantly annualised approach to financial planning, with use of reserves and achieving budget targets, has served the Council well historically. Whilst medium term financial uncertainties provide some challenges to medium term financial planning, the Council needs to ensure that its strategic financial planning process continues to be fit for purpose to support them in the medium to longer term.</li> <li>The Council has recently issued its revised "Corporate Plan 2012-14 - Building a stronger sustainable city". This corporate plan identifies the highlights of the Medium Term Financial Plan and the scale of the challenges that the Council faces in the delivery its priorities for citizens.</li> </ul>	 <b>Green</b>



1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

**4 Financial Governance**

5 Financial Control

Appendix - Key indicators of financial performance

# Financial Governance

## Key indicators of effective financial governance

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

### Understanding

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

### Engagement




- There is engagement with stakeholders including budget consultations.

### Monitoring and review

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

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<b>Understanding the Financial Environment</b>	<ul style="list-style-type: none"> <li>The Council has strong financial stewardship arrangements in place at both committee and directorate level. Reports are prepared for the three respective scrutiny committees on a quarterly basis to update them on financial performance relevant to their directorate. Variations to budget are highlighted and responsive actions are discussed where necessary.</li> <li>Heads of services and budget holders are well supported by the service accountants within the central finance team. Monthly meetings are held with budget holders to discuss service performance and actions required to address issues identified.</li> </ul>	 <b>Green</b>
<b>Executive and Member Engagement</b>	<ul style="list-style-type: none"> <li>There remains an appropriate level of senior management and member level engagement in the financial management process.</li> <li>The Council also engages well with its stakeholders. The Council undertook a detailed budget consultation exercise in 2011/12 to which approximately 1,500 stakeholders took part. The consultation included a survey printed in the Express and Echo which was also made available online together with use of the Council's Wavelength survey panel. The Council has undertaken a similar process for 2012/13 consisting of a budget open day together with an online budget survey. The results of this exercise has enabled the Council to identify priority areas and determined those areas where some of the required budget reductions should be targeted.</li> </ul>	 <b>Green</b>
<b>Overview for controls over key cost categories</b>	<ul style="list-style-type: none"> <li>The Council generally has a good awareness of those areas which are high cost and/or are under performing. However, there does not appear to be a routine mechanism for monitoring and understanding unit costs within services. The Council should ensure that key service unit costs are identified to enable external benchmarking and, where there are gaps in sources of information to enable benchmarking, the Council should collaborate with other local authorities to establish new benchmarking groups.</li> <li>The Council is taking action to address issues previously identified in our interim report relating to controls within the creditors system. Further action is planned to be taken as part of the Council's implementation of the upgrade to e-financials.</li> <li>Our ISA260 report has highlighted some inconsistencies in the allocation of cost of services to their appropriate headings in accordance with the Service Code of Practice (SeRCOP), compared to previous years. These misstatements arose due to the manual process that is involved in the allocation of costs and have now been corrected following the audit. We have recommended that management investigate the possibility of automating this process through the e-financial financial system in future years.</li> </ul>	 <b>Amber</b>

# Financial Governance

## Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p><b>Review of accuracy of Committee/Cabinet Reporting</b></p>	<ul style="list-style-type: none"> <li>Quarterly stewardship reports are provided on a timely basis to each service scrutiny committee setting out the current and forecast outturn positions. In addition, the Scrutiny Committee - Resources receives a summary position of the financial outturn for the whole of the Council. This is then subsequently considered by the Executive and full Council.</li> <li>These reports highlight matters on an exception basis, allowing corrective action to be taken in budgets where significant variances have been identified. In addition, information is provided on performance of the Housing Revenue Account, delivery of projects within the Capital Programme and the Council's performance in debtors collection and creditor payments. The anticipated impact on reserves and balances are also forecasted.</li> <li>The Scrutiny Committee - Resources also receives reports, twice a year, on the Council's progress in achieving its savings plans for the year.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Performance Management of Budgets</b></p>	<ul style="list-style-type: none"> <li>The Council has clear policies and procedures in place to support its financial monitoring processes.</li> <li>The Council has historically managed its budgets well and delivered good financial performance.</li> <li>The 2011-12 General Fund net revenue budget underspent by £92,528 based on the provisional outturn.</li> <li>The Housing Revenue Account (HRA) reported an overall increase in working balances of £1.875m. This was due to a significant underspend in the HRA capital programme and the fact that the capital programme has been financed from other capital resources. There has also been additional income from rents in the year.</li> <li>Capital expenditure in the year amounted to £13.123m, a reduction of £3.181m on the planned figure of £16.305m. The actual expenditure during 2011/12 represents 80.5% of the total approved for the revised Capital Programme. Spending performance has improved slightly on the previous year (79.8%).</li> </ul>	<p style="text-align: center;">● Green</p>

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

**5 Financial Control**

Appendix - Key indicators of financial performance

## Financial Control

### Key indicators of effective financial control

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

#### Budget setting and budget monitoring

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

#### Finance Department

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

#### Financial Systems




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

#### Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.



# Financial Control

## Internal arrangements

Area of focus	Summary observations	High level risk assessment
<b>Performance Management of Budgets</b>	<ul style="list-style-type: none"> <li>The Council has well established budget setting processes that encourages ownership from budget holders and appropriate training is provided to officers and members. The Council has a good track record in managing budgets on a service by service basis.</li> <li>The Council has a clear budget timetable in place to support the production of its annual budgets.</li> <li>Budget holders are held to account on service budget performance and are required to report on expected outturn on a monthly basis.</li> </ul>	 <b>Green</b>
<b>Performance against Savings Plans</b>	<ul style="list-style-type: none"> <li>The Council has had a good track record in delivering the required savings to achieve a balanced budget. We are pleased to report that the Council has responded to our recommendation from our previous year's findings and now separately reports its performance of the delivery of its savings plans to members twice a year.</li> <li>Latest report to members show that the Council identified £2.4 million savings whilst setting the 2011-12 budget. £2.181million (90%) of the savings have been achieved for the year and the Council has delivered a small underspend on its General Fund budget. Clear explanations have been provided where these have not been achieved.</li> </ul>	 <b>Green</b>
<b>Finance Department resourcing and qualifications / experience</b>	<ul style="list-style-type: none"> <li>The Council's finance function has had some capacity challenges over the course of the year, however these do not appear to have had a significant impact on the delivery of its functions or in meeting its requirements. We have no concerns over the Council's finance team current capabilities to deliver its responsibilities effectively.</li> <li>The Council's plans to undertake a review of its finance function in the near future and as part of this process considering whether roles and responsibilities need to be changed or broadened to include areas such as capital monitoring and major projects.</li> </ul>	 <b>Green</b>

# Financial Control


## Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<p><b>Summary of key financial accounting systems</b></p>	<ul style="list-style-type: none"> <li>The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information, which is used to support decisions.</li> <li>With the exception of matters already raised in respect of the creditors system, we have not identified any significant concerns on the adequacy of the Council's key financial systems.</li> <li>An internal audit plan is in place which provides regular assessment of the adequacy of the Council's financial systems. No significant concerns have been highlighted from their work.</li> <li>The Council has highlighted some inadequacies with its current accounting system software whereby it has had to implement manual workarounds in order to deliver its functions appropriately. This includes asset recording for the fixed asset register and journals authorisation. The Council continues to work with neighbouring councils and the finance software provider to explore solutions to these issues.</li> </ul>	 <b>Green</b>
<p><b>Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit</b></p>	<ul style="list-style-type: none"> <li>During the past year there have been changes to the internal audit service at the Council . The Head of Internal Audit retired at the end of February 2012 and the internal audit department now directly reports to the Assistant Director of Finance. We highlighted in our interim report to the Council in May 2012 that this increases the risk that internal audit is not seen to be independent of the Council's operating management, as required by the CIPFA Internal Audit Standards, as a significant proportion of the reviews undertaken are related to systems and controls operating within the Assistant Director of Finance's department. However, we recognise that this risk is mitigated, to an extent, through internal audit having access to the Chief Executive if any sensitive issues are identified.</li> <li>Our review of a sample of two internal audit's files as part of our interim audit identified that there was limited evidence on files to support the sampling undertaken and the sample sizes chosen did not provide adequate coverage of the population. In addition, walkthroughs of the systems have not routinely been documented. With these exceptions, we have concluded that that the Council's Internal Audit Service comply with the requirements set out in CIPFA's Code of Practice for Internal Audit.</li> </ul>	 <b>Amber</b>



# Financial Control

## Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<b>External audit arrangements and programme of activities</b>	<ul style="list-style-type: none"><li>• The key areas for action from the most recent Annual Audit Letter noted that the Council should take action to further improve it arrangements as follows:<ul style="list-style-type: none"><li>• The medium term financial position remains extremely challenging as the Council seeks to maintain financial balance whilst facing significant demand pressures. The reduction in the formula grant of 13.8% has meant £2.4 million of savings are required in 2011/12 to achieve a balanced budget. Whilst the Council has a good track record of managing and achieving its budget, there is a need for continued and formal reporting in the delivery of the savings plan to members.</li><li>• The Council should continue to closely monitor the completion of the Royal Albert Memorial Museum (RAMM) project to both revised budget and timescale to minimise the potential for further slippage.</li></ul></li><li>• The Council is responsive to external audit recommendations. The Council has included responses to actions raised in our reports in previous years and has made good progress in implementing recommendations.</li></ul>	 <b>Green</b>

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

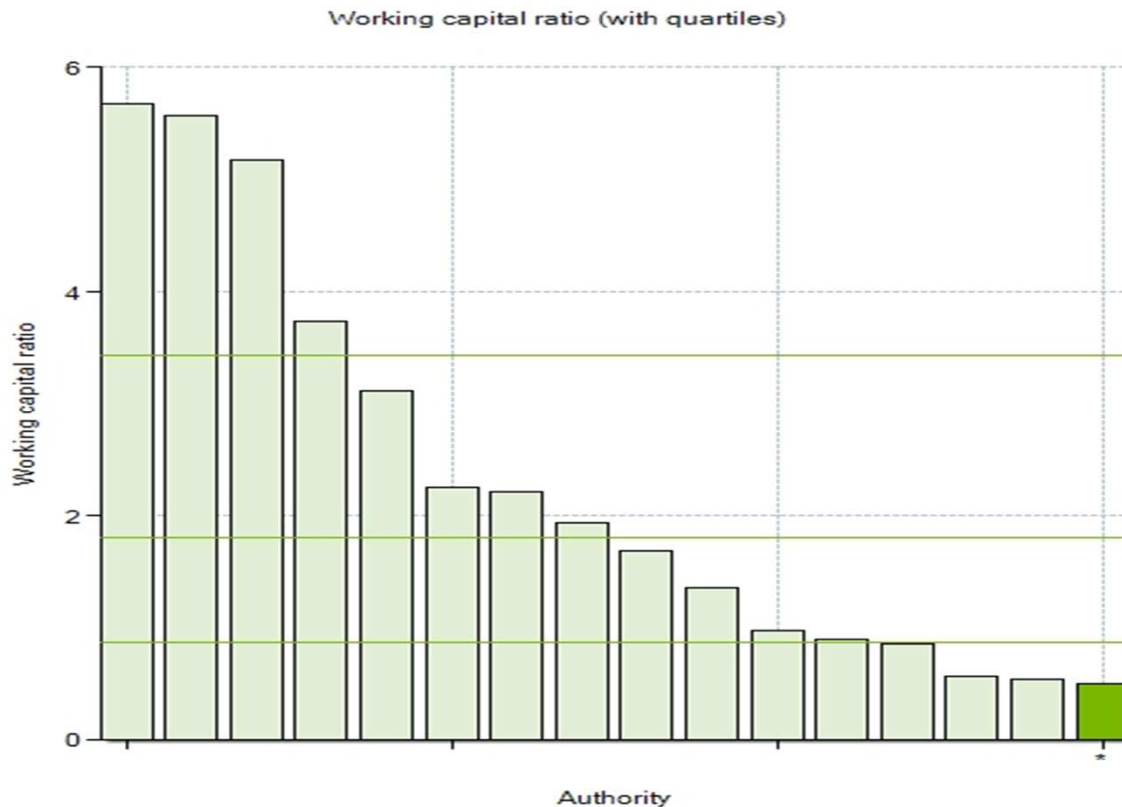
Appendix - Key indicators of financial performance

# Key Indicators of Financial Performance

## Working Capital - Benchmarked

### Definition

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

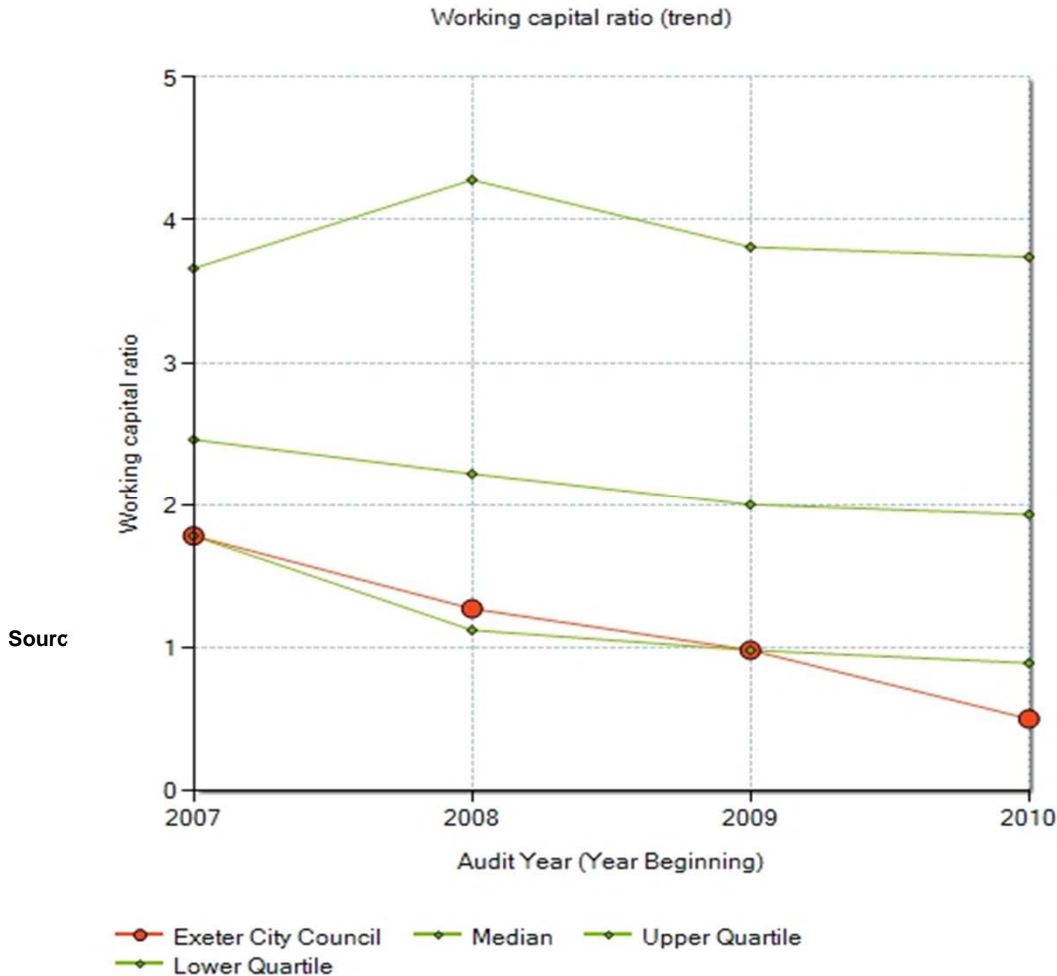


### Findings

Exeter City Council currently has a working capital ratio of 0.5:1 which is below the level considered to be acceptable. It is also the lowest performer in comparison with its statistical nearest neighbours i.e. those considered most like the Council. The position has deteriorated from 2009/10 where the ratio was 0.98:1.

# Key Indicators of Financial Performance

## Working Capital - Trend



### Findings

Trend analysis for working capital again demonstrates that Exeter City Council's liquidity has decreased over the last few years.

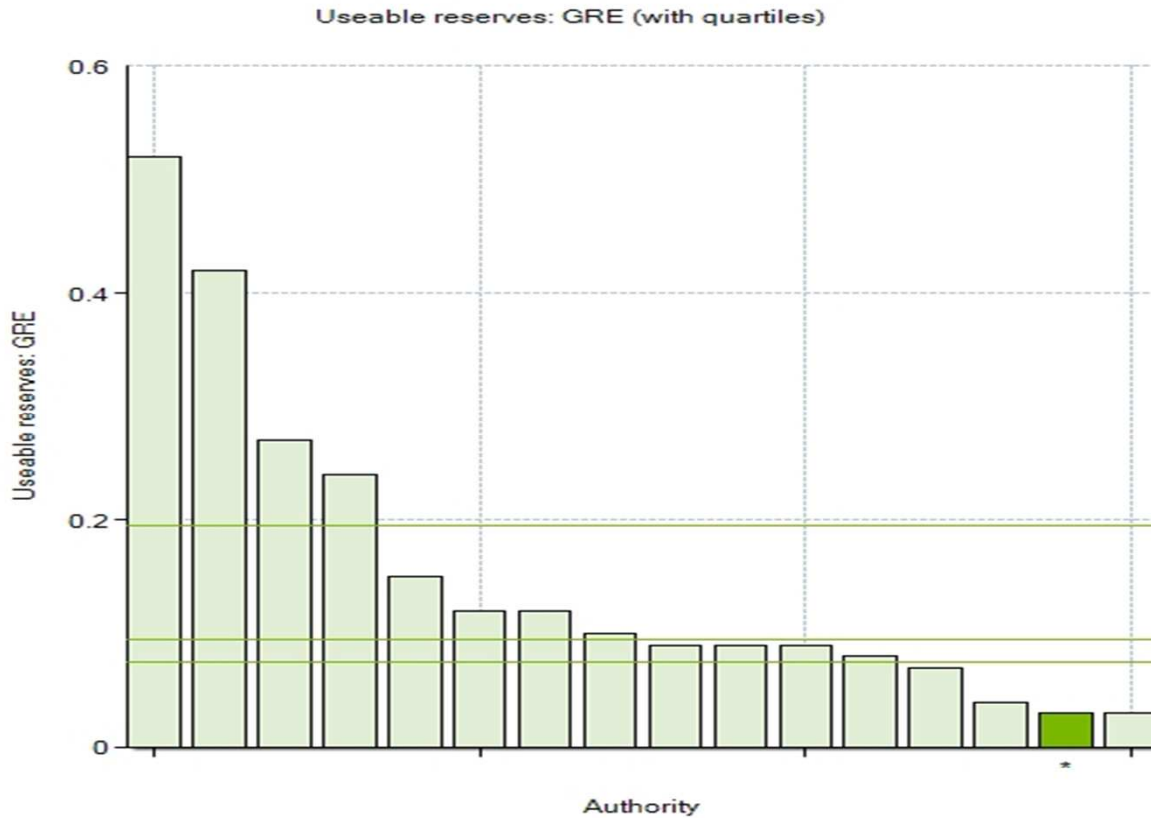
Their position has deteriorated which is in line with the overall trend for the comparator group. However, it should be noted that Exeter's performance has deteriorated at a greater rate. This has resulted in them moving from the median quartile to the lower quartile between 2008 and 2010.

# Key Indicators of Financial Performance

## Useable Reserves - Benchmarked

### Definition

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

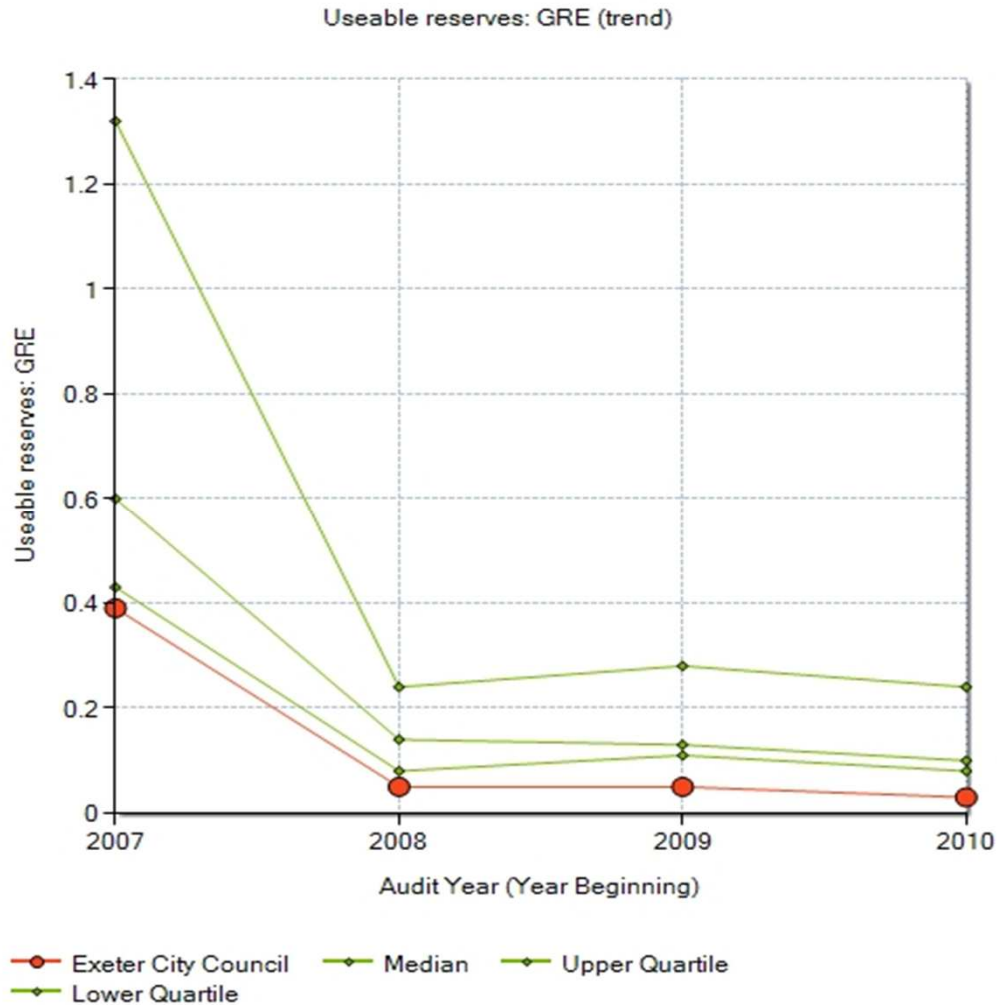


### Findings

From 2009/10 Exeter has reduced the value of its useable reserves, from 0.05 to 0.03 in 2010/11. The majority of Councils have seen their performance deteriorate over the past year. The overall performance of Exeter City Council is below average and is in the lower quartile.

# Key Indicators of Financial Performance

## Useable Reserves - Trends



### Findings

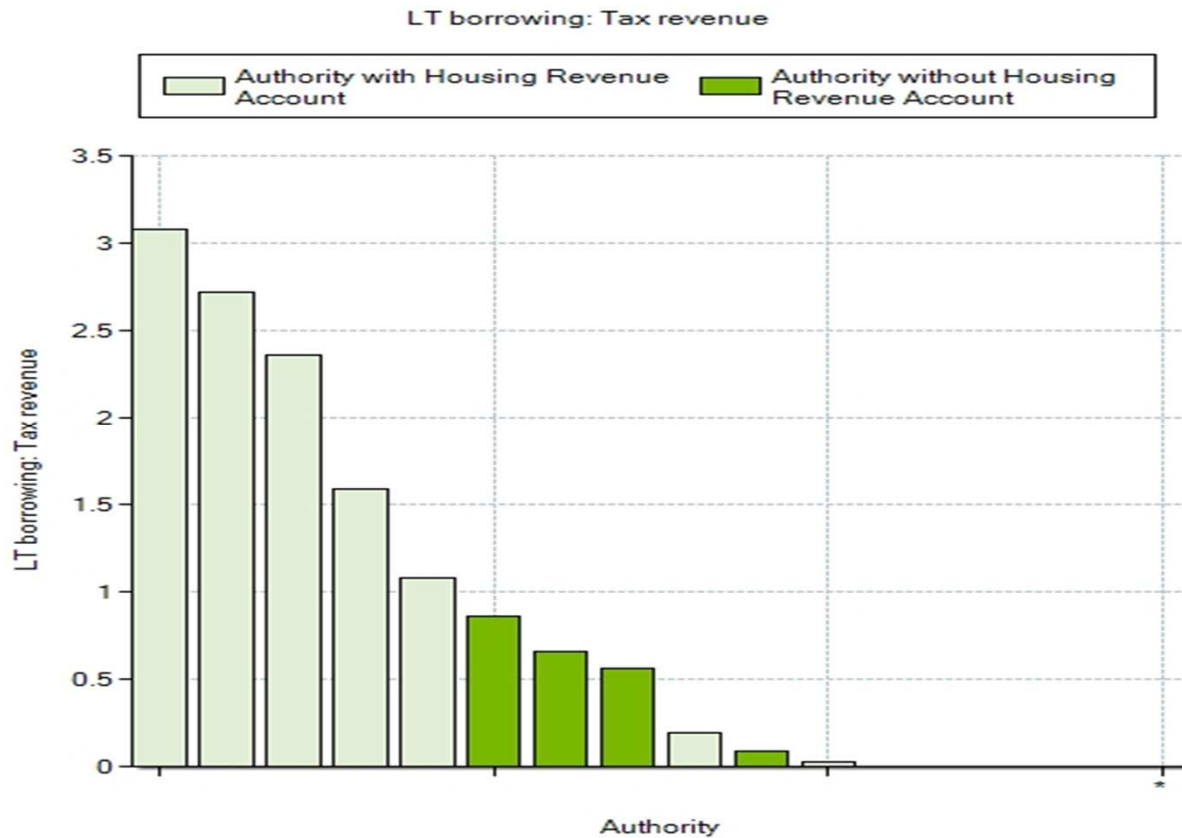
Exeter City Council's useable reserves as a percentage of general gross revenue expenditure has remained fairly stable over the past three years which mirrors the performance of the comparator group as a whole. Exeter City Council have remained in the lower quartile for the past four years.

# Key Indicators of Financial Performance

## Long Term Borrowing to Tax Revenue - Benchmarked

### Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.



### Findings

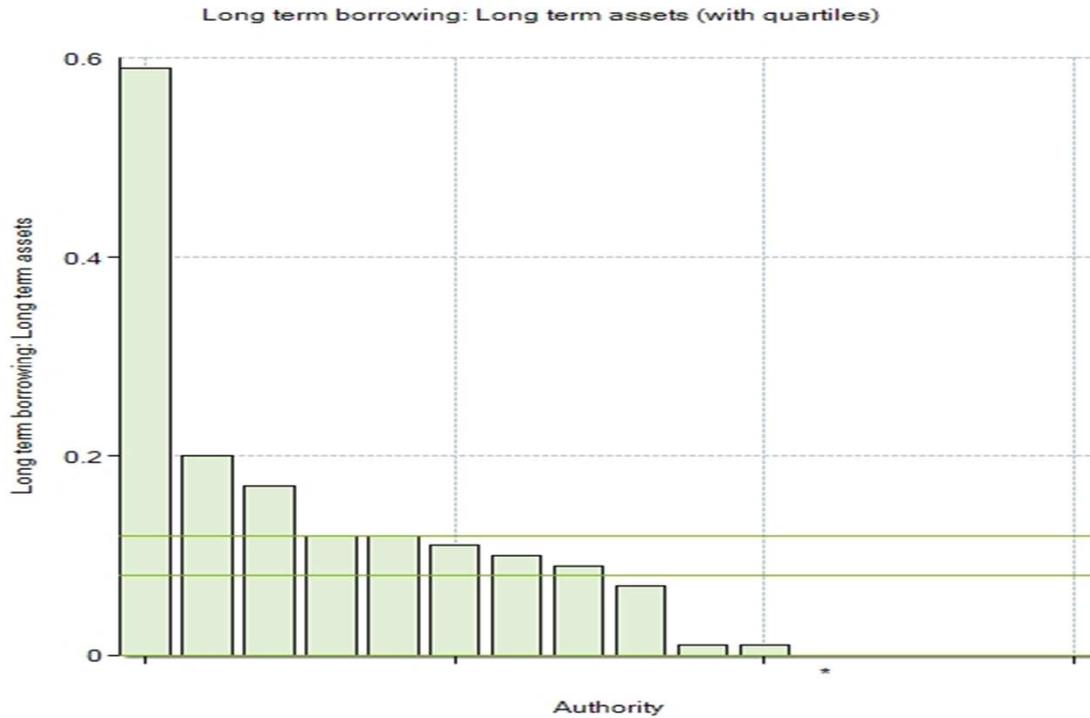
Exeter City Council's ratio of zero is as a result of having no long term borrowing in 2010-11 which is consistent with previous years. Exeter's performance is well above the average for the group and they are one of a number of Council's to have a ratio of zero.

# Key Indicators of Financial Performance

## Long-term borrowing to Long-term assets - Benchmarked

### Definition

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



### Findings

Exeter have a ratio of zero as a result of having no long term borrowing in 2010-11 which is in line with previous years. The majority of Councils within the comparison group have a ratio of 0.2:1 or less which indicates that there are few issues that will arise.



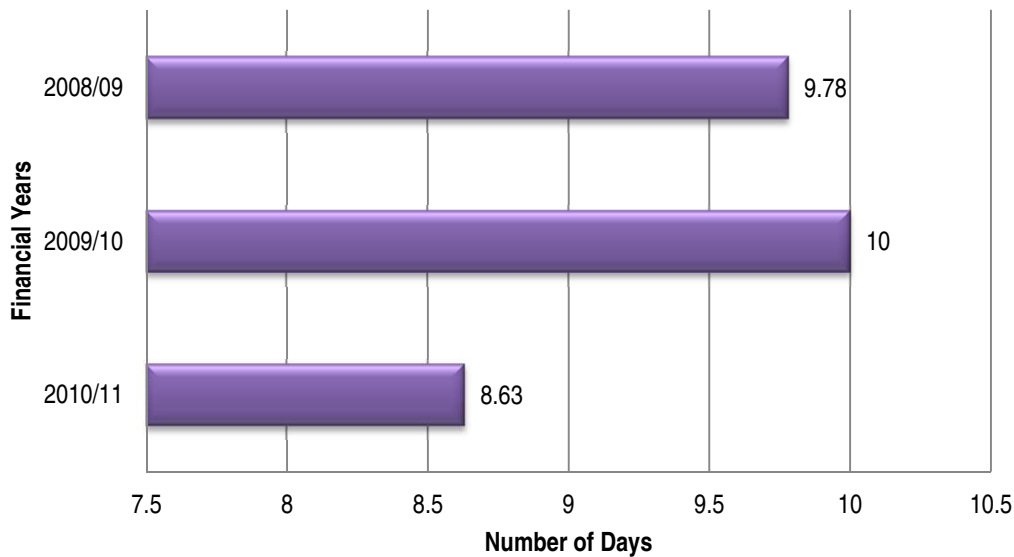
# Key Indicators of Financial Performance

## Sickness Absence Levels

### Background

- The average sickness absence level for the public sector is 8.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:
- Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

### Sickness Absence



### Findings

Exeter's sickness absence levels have fluctuated over the past three years, with an increase of 0.2 per FTE (2.2%) during 2009/10 and a reduction of 1.37 per FTE (13.7%) during 2010/11.

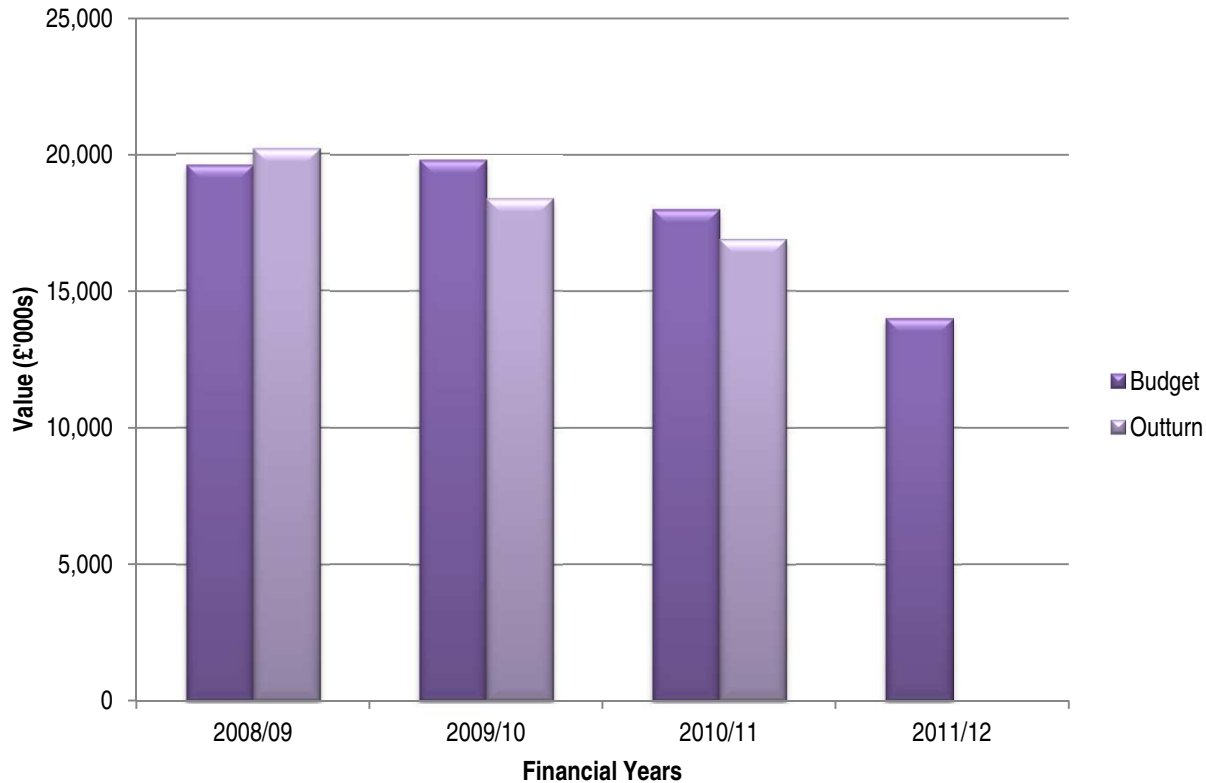
The Council's absence level during 2010/11 of 8.63 per FTE, is below the Council's target of 9.

Source: Audit Commission's technical directory

## Key Indicators of Financial Performance

### Performance Against Budget

#### Outturn v Budget



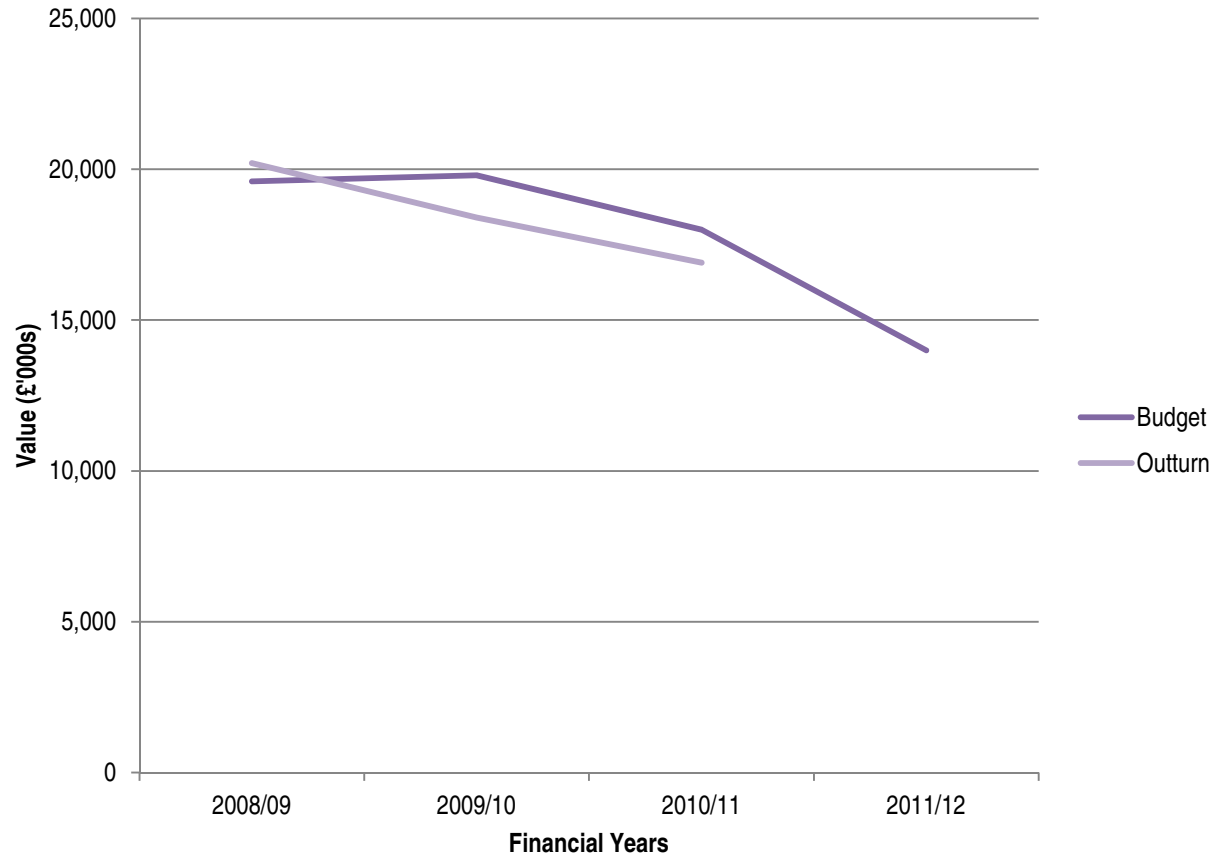
Although outturn exceeded budget in 2008/09 the Council has reported an underspend for the next two financial years. It is also noticeable that the overall budget has decreased year on year, a trend which has continued in 2011/12.

These budget reductions are in line with expectations given the continued poor performance of the national and global economy and the reduction in funding that is provided by central government.

# Key Indicators of Financial Performance

## Performance Against Budget: Track Record

### Outturn v Budget: Trends



The downward trend is expected given the reduction in funding provided by Central Government and the requirement to provide savings on an annual basis.



© 2011 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP,  
a limited liability partnership.

Grant Thornton UK LLP is a member firm of  
Grant Thornton International Ltd ('Grant Thornton International').  
Grant Thornton International and the member firms are not  
a worldwide partnership. Services are delivered by the member  
firms independently.

This publication has been prepared only as a guide.  
No responsibility can be accepted by us for loss occasioned  
to any person acting or refraining from acting as a result of  
any material in this publication.

**[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)**