

# Interim Auditor's Annual Report on Exeter City Council

2021/22 and 2022/23

February 2024

Final



# Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the City 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 City Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Executive summary	3
Key recommendations	7
Use of auditor's powers	9
Commentary on the City Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	10
Financial sustainability	11
Improvement recommendations	14
Governance	15
Improvement recommendations	20
Improving economy, efficiency and effectiveness	23
Improvement recommendations	26
Follow-up of previous recommendations	32
Opinion on the financial statements	38
<b>Appendices</b>	
Appendix A – Responsibilities of the City Council	40
Appendix B – Risks of significant weaknesses, our procedures and findings	41
Appendix C – An explanatory note on recommendations	42

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Executive summary



## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021/22 and 2022/23. As part of our 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.

The Council faces significant funding challenges in 2023/24 and beyond and has begun to take measures to address these through the identification of savings and development of the One Exeter Programme, however, one year funding settlements and uncertainty over funding streams remain. The Council has maintained a prudent level of reserves to mitigate the financial challenges in the short term.

The table overleaf illustrates that the number of significant weaknesses and key recommendations raised has increased since 2020/21. We have found that arrangements have not improved in relation to the Council's alternative delivery models and that the Council's performance management arrangements need to significantly improve. The Council also needs to progress recommendations more promptly to ensure previous recommendations are actioned on a timely basis.







Arrangements should be strengthened and the Council should action the following key recommendations:

- consider the alternative delivery models (subsidiaries) with which it is involved and assess if continuing with these arrangements is appropriate and provides the best value for money
- ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the Executive or Full Council on a quarterly basis. Directorate and service performance monitoring should support and be linked to the Council's strategic priorities and a robust performance management framework should clearly set out the approach required.




# Executive summary



## Value for money arrangements and key recommendations

Criteria	Risk assessment	2021/22 Auditor Judgment	2022/23 Auditor Judgment	Direction of travel
Financial sustainability	One risk identified that the Council has unidentified savings and/or funding gaps in financial planning for 2021/22 and 2022/23.	 No significant weaknesses in arrangements identified, one improvement recommendation raised and improvement recommendations remain outstanding from 2020/21.	 No significant weaknesses in arrangements identified, one improvement recommendation raised and improvement recommendations remain outstanding from 2020/21.	↔
Governance	One risk of significant weakness was identified in relation to Exeter City Living, relates to both years.	 One significant weakness and one key recommendation raised and four improvement recommendations.	 One significant weaknesses in arrangements identified, one key recommendation made and five improvement recommendations raised.	↓
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	 No significant weaknesses in arrangements identified, but three improvement recommendation made.	 One significant weaknesses in arrangements identified, one key recommendation made and three improvement recommendations.	↓

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

# Executive summary



## Financial sustainability

In 2021/22 the Council did not need to deliver any savings to meet the budget gap, but has since seen an increase in the budget gap and the savings required from 2022/23 onwards, with savings to the value of £3.15m up to and including 2025/26, yet to be identified. The Council has begun to take measures to address the financial challenges through the identification of savings and development of the One Exeter Programme, however, the Council will need to continue to carefully manage its financial position. In addition, consultation on the budget and proposed savings has been very limited, this will increase in importance and relevance as more varied savings are required. The Council has maintained a prudent level of reserves to mitigate the financial challenges in the short term.

We have raised one new improvement recommendations and two remain outstanding from 2020/21.



## Governance

The significant weakness identified in 2020/21 remains in place, as the Council has not made sufficient improvements in 2021/22 and 2022/23 to address the governance arrangements for Exeter City Living, which has led to decision making resulting in significant loss or exposure to significant financial risk. In addition, we have broadened the scope of our review of governance arrangements to other connected entities and conclude that effective governance arrangements have not been in place for its other alternative delivery models; Exeter City Futures Community Interest Company, Exeter Business Centre Limited, Exeter Science Park Limited, Exeter Canal and Quay Trust Limited, Monkerton Heat Company Limited, Dextco Limited, which could also lead to decision making resulting in significant loss or exposure to significant financial risk.

Throughout 2022, the Chief Executive and Growth Director was seconded to Exeter City Futures Community Interest Company for two days a week and the Director for Transformation for three days per week. This arrangement was not formally monitored or reported to members and the Chief Executive and Growth Director has since left the Council. In March 2023, the Council appointed its new permanent Chief Executive however selection for this appointment was limited to internal candidates. Whilst our work appropriately makes no assessment of the final decisions reached by Council on this appointment, in our view, the restriction of this appointment to internal candidates for the Council's most senior chief officer and Head of Paid Service did not represent good practice, promote good public engagement or maximise its opportunity to attract attention of all possible candidates that were suitably qualified to apply for such a key officer role.

We have raised one new key recommendation and the key recommendation from 2020/21 remains outstanding. We have also raised five additional improvement recommendations and five remain outstanding from 2020/21.



## Improving economy, efficiency and effectiveness

The Council has an agreed corporate plan which was reviewed and updated in October 2022. However, throughout 2021/22 and 2022/23 the Council has not had an effective formal performance management framework in place and has not monitored or reported progress against its strategic objectives in a formal and consistent way. The Council has not had a corporate view of its performance and neither have scrutiny had an opportunity to challenge or review performance. This is a significant weakness in arrangements as the Council does not have effective performance management arrangements in place to enable members to assess current performance and take appropriate action or secure improvement in areas as required.

We have raised one key recommendation for 2021/22, three new improvement recommendations and five remain outstanding from 2020/21.

# Executive summary



## 2021/2

We have not yet completed the 2021/22 financial statement audits for Exeter City Council. Our work is substantially complete and interim Audit Findings Reports were issued and reported to the Council's Audit and Governance Committee on 27 September 2023 and 29 November 2023 reporting our progress and findings to date.

Once this audit is completed this Auditor's Annual Report will be updated for any significant findings and issued as a final version.

## 2022/3

We have not yet completed the 2022/23 financial statement audits for Exeter City Council.

Once this audit is completed this Auditor's Annual Report will be updated for any significant findings and issued as a final version.



# Key recommendations



## Recommendation 1

The Council should review the alternative delivery models with which it is involved and assess if continuing with these arrangements is appropriate and provides the best value for money. Where it is appropriate to continue, the Council should strengthen the governance arrangements as follows:

- determine who will act as the shareholder representative or Council lead
- agree the objectives or benefits expected through partnership working so that performance can be effectively monitored
- introduce periodic financial and performance monitoring reports which are reviewed by members within public meetings.

### Audit year

2021/22 or 2022/23

### Why/impact

Effective governance arrangements ensure that performance is monitored and reported so that action can be taken to improve performance as required.

### Auditor judgement

We have identified this as a significant weakness as the Council did not have effective governance arrangements in place to monitor and report performance to members on its alternative delivery models.

### Summary findings

During 2021/22 and 2022/23 the Council was involved in the following; Exeter City Living, Exeter City Futures Community Interest Company (ECF), Exeter Business Centre Limited, Exeter Science Park Limited, Exeter Canal and Quay Trust Limited, Monkerton Heat Company Limited, Dextco Limited and Strata Service Solutions Ltd.

We considered the governance arrangements in place for all of the ADMs listed above and found that, apart for Strata Services Solutions Limited, the following weaknesses in the governance arrangements:

- no consistent approach or policy in place setting out what governance arrangements should be adopted
- lack of clear objectives against which performance could be effectively monitored
- lack of reporting of progress/performance monitoring and member oversight
- lack of clarity over who is acting as the shareholder representative.

### Management Comments

Agreed. The Council has a number of interests, which will each be reviewed. The review of ECL has already concluded resulting in the scaling back of the Company. However, the governance of the smaller Company will be fully documented. ECF no longer operates and a review of the governance arrangements and performance of ESPL has just been completed. The Council will therefore review the need for and then the governance and reporting arrangements for ESPL, EBC and ECQT. The Council considers the existing arrangements for Strata to be adequate although the review will consider whether any further reporting to Council would be beneficial.

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

# Key recommendations



## Recommendation 2

The Council should ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the Executive or Full Council on a quarterly basis. Directorate and service performance monitoring should support and be linked to the Council's strategic priorities. A robust performance management framework should clearly set out the approach required.

### Audit year

2021/22 and 2022/23

### Why/impact

The performance monitoring would enable the Council to identify areas of strengths and weaknesses, track progress and make necessary adjustments to improve its overall performance.

### Auditor judgement

We have identified this as a significant weakness in arrangements as the Council did not have proper arrangements in place to monitor its strategic priorities as set out in its corporate plan.

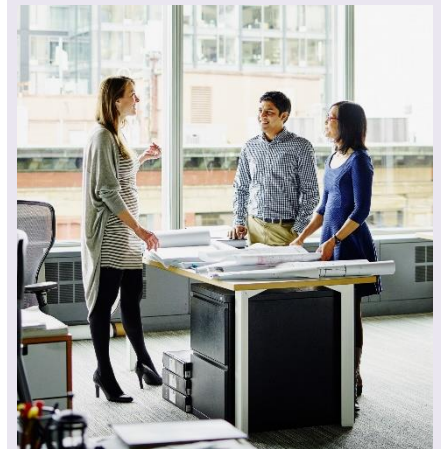
### Summary findings

Throughout 2020/21, 2021/22 and 2022/23 and up to the time of reporting the Council has not reported performance against its strategic priorities as set out in the corporate plan. The Council does not have a performance management framework and does not have a corporate view on its performance.

### Management Comments

Agreed. This is a key priority of the Chief Executive, and a named Director is leading this project.

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





# Use of auditor's powers

We did not need to apply the following powers in either 2021/22 or 2022/23:

## 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

## 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.

## 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.

## 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.

## 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 received two objections from local residents on the 2021/22 financial statements, this page and the report will be updated following conclusion of that work.

# Securing economy, efficiency and effectiveness in the City Council's 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).



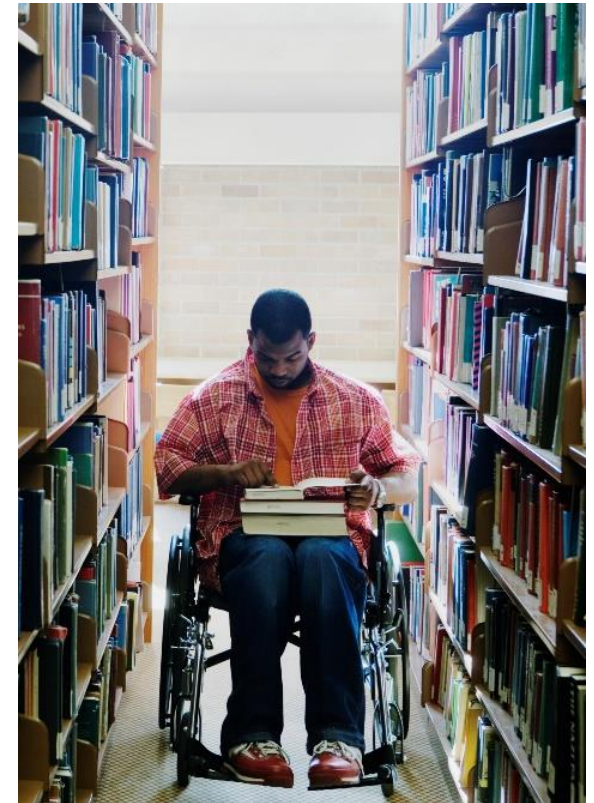
## Governance

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 City 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 the City Council's arrangements in each of these three areas, is set out on pages 11 to 30. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the City Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Outturn 2021/22

The 2021/22 general fund outturn position was a surplus of £5.4m against a budget of £21.5m. This position was achieved by additional funds of £6.3m from the earmarked reserves and £0.8m increase in the general fund working balances. The general fund balance increased to £5.48m. Service underspends during the year have been attributed to staff vacancies as a result of difficulties in recruitment and complexities in getting products and services delivered.

In 2021/22 the Council did not require savings to be made.

The Housing Revenue Account (HRA) ended the year with a deficit of £1.804m, a £5.622m positive variance against the planned deficit of £7.427m for the year. The key reason for this variance to budget was a delay in the capital programme, attributable to increasing costs and difficulty in securing contractors. The HRA working balance (reserve) had built up a considerable balance at the end of 2020/21 (£12.95m) and the Council planned to reduce the working balance through contributions to capital, but this had not been possible due to the delays in the capital programme. At the end of 2021/22 the HRA working capital balance was £11.15m, £7.15m above the agreed contingency balance of £4m.

The financial position above was report to members in July 2022.

## Capital 2021/22

The Council began the financial year with a general fund capital budget of £100.2m, some additions were made to the budget (total £1.1m) as grant funding was provided, but the most significant change was the reduction in quarter 3 (£29m) as projects were deferred until 2022/23. The capital budget at the year end was £72.3m.

Capital spend in 2021/22 was £17.04m, 23.6% of the revised budget and only 17% of original approved capital programme. The Council has agreed to carry forward £55.39m to future years. During 2021/22 the capital programme slipped due to costs and availability of contractors. The Council has looked to address this, see the 2022/23 capitals section below.

The HRA capital programme for 2021/22 was £23.78m and the Council spent in year £19.33m, 81% of the budget. £4.45m will be carried forward to future years.

## Outturn 2022/23

The 2022/23 general fund outturn fund outturn position was a surplus of £4.7m against a budget of £20.87m. This was achieved by additional funds of £1.5m from the earmarked reserves and £0.63m increase in general fund reserves. Savings of £1.13m were delivered in year.

The HRA ended the year with a deficit of £3.9m, £0.7m below the planned deficit £4.6m. The Council has continued to try and reduce the HRA working balance to fund capital spend. At the end of 2022/23 the working capital balance had reduced from £11.15m to £7.2m, £3.2m above the £4m agreed contingency.

## Capital 2022/23

The capital programme at the start of the year was £131m and included £84m carried forward from 2021/22. The capital programme was revised during the year to £63.9m. The Council spent £59.6m which included £44m on the Guildhall Shopping Centre, only 45% of original programme. As part of the 2023/24 the Council has reviewed and prioritised its capital programme to ensure it is affordable going forward. The Council has agreed to carry forward £24.5m to future years and the 2023/24 revised capital budget is £62.5m.

# Financial sustainability

The HRA capital programme for 2021/22 was £15.83m and the Council spent in year £13.6m, 86% of the budget. £2.3m will be carried forward to future years.

## Medium Term Financial Planning

The Council's Medium Term Financial Plan is reviewed and updated annually and for both 2021/22 and 2022/23 was approved in February as part of the budget setting process. Prior to this, the MTFP was reviewed by the Executive in the January of each year along with the budget strategy.

We consider that the MTFP is based upon realistic and appropriate assumptions based on the information available to the Council at the time. We have considered the 2022/23 MTFP compared to the MTFP agreed in 2023 and have not identify any significant issues which undermine the assumptions.

In February 2021 the Council identified a budget funding gap of £6m, this increased to £6.35m in 2022 and reduced to £3.15m (from 2024/25 to 2026/27) as a significant amount of savings were identified and agreed for the 2023/24 financial year. This is illustrated in the table below:

### Savings requirement as per the February 2023 MTFP

Year	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Savings and additional income identified	5.508	0.743	1.007	0.387	<b>7.645</b>
Funding gap	0	0.75	1.2	1.2	<b>3.15</b>
Total	5.508	1.493	2.207	1.587	<b>10.795</b>

The Council has a programme in place to identify savings, the One Exeter organisational change programme. This programme was agreed in February 2022 and includes a range of workstreams that will create efficiencies and savings through new ways of working.

The Council requires significant savings in 2023/24 and carried out a number of actions to identify these savings as part of the One Exeter Programme, which included:

- a detailed review of discretionary services
- service reviews to reduce costs
- additional proposals from the Strategic Management Board (SMB).

These actions were able to identify £3.945m in savings. The remainder of the savings/additional income identified in the table opposite include £1.56m of additional rental income from the Guildhall Shopping Centre. The Guildhall Shopping Centre was acquired by the Council in 2022/23.

In 2021/22, the Council did not need to deliver any savings and as such no monitoring was required. In 2022/23, the Council had a savings target of £1.288m and delivered £1.126m (87%). The Council began reporting savings delivery (One Exeter programme budget reductions) to members from the first quarter of 2022/23 and provided the information as an appendix to the quarterly budget monitoring reports. These arrangements address the recommendation raised in 2020/21 and more detail can be found on page 32.

In 2020/21, we raised an improvement recommendation that:- *The Council should ensure that it consults with residents and businesses as part of the budget process.* In 2022/23 no consultation was undertaken and in 2022/23 consultation was limited to the Exeter Chamber and the InExeter Business Improvement District Board. This recommendation remains outstanding and further detail can be found on page 32.

We have considered whether the MTFP was linked to the Council's workforce planning. However, the Council did not have workforce plans in place during 2021/22 or 2022/23. We have raised an improvement recommendation on page 14.

# Financial sustainability

## Reserves and risk mitigation

The purpose of the unearmarked general fund (GF) reserve is to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters. These reserves also act as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years. Whereas earmarked reserves are set aside for specific purposes.

The Council agreed a prudent level of unearmarked GF reserves at a minimum level of £3m in both its 2022/23 and 2023/24 budget. As at 31 March 2022, the Council held £5.5m and £6.1m at 31 March 2023.

The chart illustrates that the Council has seen a general increase in its GF reserves over the past five/six years, with a slight decrease in 2022/23.

We raised an improvement recommendation in 2020/21 that the Council should consider a risk based calculation for the minimum level of GF reserves. 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. **This improvement recommendation remains outstanding.**

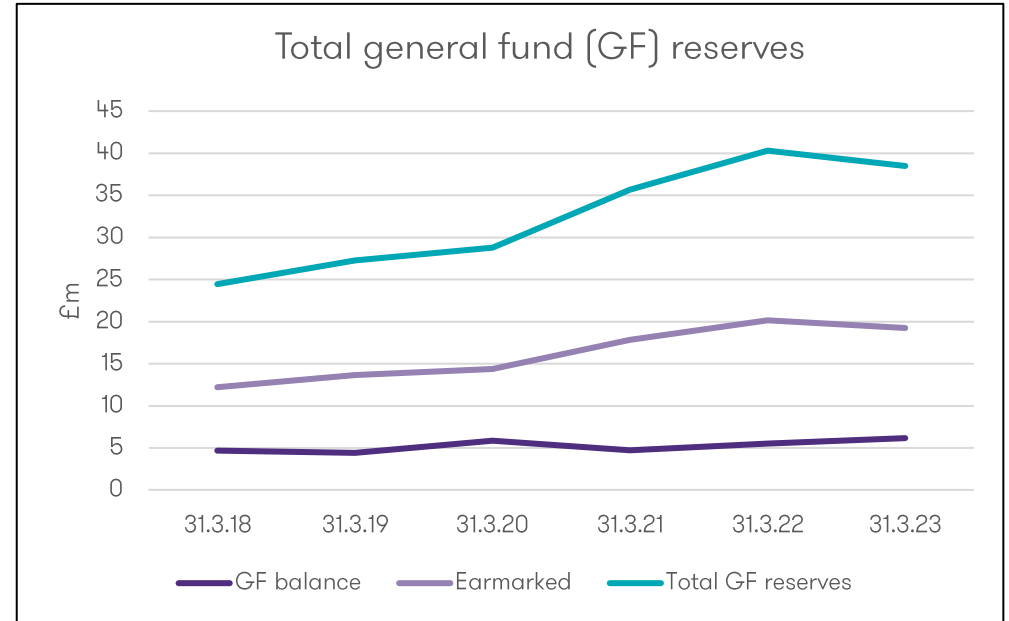
We have also considered in 2022/23 the total GF reserves as a percentage of net revenue expenditure, equal to 39%. In comparison to over 100 district councils this was below the average and the Council was below the midpoint, however **we consider that the Council holds a prudent level of reserves and that these reserves could enable the Council to mitigate its current financial risks.**

## Capital strategy and treasury management

The Council approved its Capital Programme, Capital Strategy, Treasury Management Strategy and Prudential Code indicators in February 2022 and February 2023 as part of the budget setting processes for each financial year. These documents set out the Council’s capital expenditure, capital financing and borrowing projections.

In both 2021/22 and 2022/23 the Section 151 officer confirmed that the Council had remained within its prudential indicators.

The table opposite identifies the capital spend in 2021/22 and 2022/23 and budgeted spend for 2023/24. The capital strategy and its affordability remain a risk for the Council and as such has reduced its capital programme for 2024/5 onwards, as set out in its prudential indicators report.



Capital borrowing	2021/22 £m	2022/23 £m	2023/24* £m
Revised capital programme	72.3	63.9	37.5
Year end spend	17.04	59.6	
Spend funded from borrowing	11.8 69%	58.3 98%	27.8 74%

\* 2023/24 figures are based on 2023/24 budget whereas the previous two years are outturn figures

# Improvement recommendations



## Financial sustainability

### Recommendation 1

The Council should develop a workforce strategy and ensure it is linked to the Council's medium term financial strategy (MTFS)

### Audit year

2021/22 and 2022/23

### Why/impact

Changes in the workforce can impact on the financial position of the Council, both releasing funds and requiring additional funds, so both plans and strategies should not be developed in isolation

### Auditor judgement

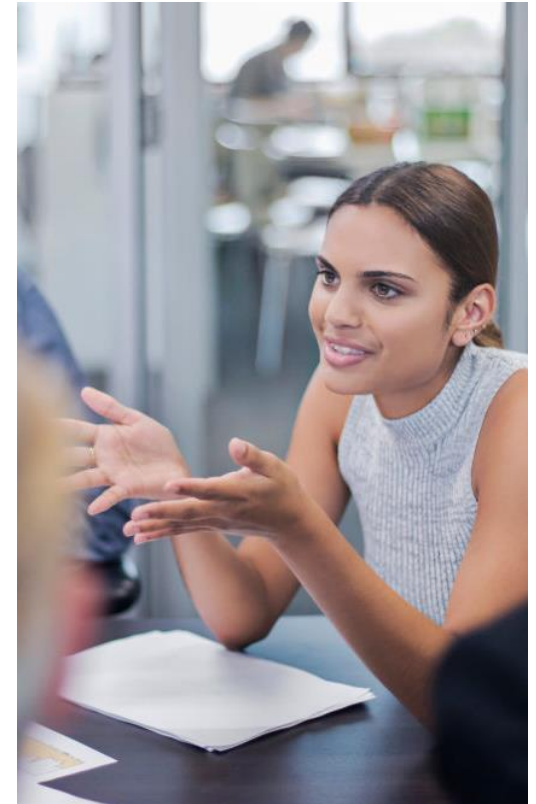
We were unable to assess if the MTFS took into account any changes in workforce as the Council did not have a workforce strategy in place in 2021/22 and 2022/23.

### Summary findings

As above.  
See page 12 for further detail.

### Management Comments

Agreed. The Council will introduce a Workforce Strategy. It is one of the planned improvements under One Exeter.



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

# Governance



## We considered how the City Council:

- 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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Budget setting and monitoring

### Revenue

The setting of revenue and capital budgets followed a similar process in 2022/23 and 2023/24. Although due to the savings required in 2023/24 some additional discussions were required with both officers and members.

The process in each year began with discussions with the Senior Management Board, following the identification of the best, medium and worst-case scenarios that had been developed by the finance team. This exercise for 2023/24 established unidentified savings ranging from £1m to £2.3m. This requirement increased as the interim financial settlement was announced, and other assumptions were determined to £3.945m as previously mentioned on page 12.

Due to the amount of savings required meetings were held with the member portfolio leads, the Labour group of members and the Leader of the Council. For each year the overall budget was then presented and discussed to a formal meeting of Scrutiny, the Executive, informally with all members before final agreement by Full Council.

Budget monitoring was carried out by the Finance Team and budget reports are provided to budget holders on a quarterly basis.

For both years, the Executive received quarterly budget monitoring reports.

### HRA

The HRA budgets followed the same process as set out above and were agreed alongside the revenue budgets.

### Capital

The capital budgets were also agreed alongside the revenue budgets.

Capital financing requirements were included within the budget for 2022/23 and 2023/24, including projections for the next four years.

**Overall, we identified no significant weaknesses in the Council's approach to budget setting and monitoring.**

### Managing risk

The Audit and Governance Committee had responsibility for reviewing the Corporate Risk Register (CRR) throughout 2021/22 and 2022/23 and reviewed it on a quarterly basis. The Strategic Management Board also had responsibility for reviewing the risks being posed to the Council and ensuring that significant risks were recorded on the Corporate Risk Register (CRR) along with mitigating actions. Service leads monitored risks at an operational level and were required to provide feedback any issues to their directors.

The Council's risk management policy, dated February 2015, sets out the approach, responsibilities, and procedures for managing risk. In 2020/21 we recommended that the Council should formally review the risk management policy to ensure that it accurately reflects the Council's appetite for risk and responsibilities for recording, reporting and managing risk. This recommendation remains outstanding and further detail can be found on page 32.

In addition, in 2020/21, we made an improvement recommendation for the Council to align its risks with its corporate objectives. This recommendation has now been addressed.

# Governance

## Managing risk (continued)

In 2023/24 the Council commissioned a review of its risk management arrangements, we understand that the Council will review and make changes based on these findings.

**Based on our review of the 2021/22 and 2022/23 work, we have not found any significant weakness in the Council's systems for managing and reporting risk.**

## Internal control

Throughout 2021/22 and 2022/23, the Council had an effective internal audit service in place that adhered to the guidelines of the Public Sector Internal Audit Standards (PSIA). The last PSIA review was conducted in January 2020 which confirmed that the internal audit is functioning satisfactorily. The next review is scheduled for January 2025.

The Audit and Governance Committee approved the Council's internal audit plans in March 2021 and 2022 for each respective year. For 2021/22 and 2022/23 internal audit completed 98% of its planned work, 3% above its planned target of 95% and for both years quarterly updates on the progress made against the internal audit plan were reported to the Audit and Governance Committee.

These quarterly reports also included commentary on high risk recommendations and issues raised in previous Internal Audit reports. However, we have established that the Council does not have a process to ensure that recommendations raised by external audit are regularly reported to the Audit and Governance Committee. In 2020/21 within our Auditor's Annual Report we raised one key recommendation and 21 improvement recommendation. The key recommendation remains outstanding and 11 improvement recommendation also require addressing. Based on these findings we consider that **the Council should strengthen the monitoring arrangements to ensure recommendations raised by Internal Audit and external audit are followed up and completed in a timely manner.**

For 2021/22 and 2022/23, the Internal Audit Manager provided an overall positive opinion for the year, stating that *"the key systems are operating satisfactorily and that there are no fundamental breakdowns of control resulting in material discrepancy"*.

**We have not found any areas of significant weakness in the management and reporting of internal control in 2021/22 or 2022/23.**

## Monitoring standards

The Council has an up-to-date counter fraud policy and whistleblowing policy. The Code of Conduct which is within the Constitution was reviewed and updated annually, whereas the Counter Fraud and the Whistleblowing Policies were updated in November 2022 and July 2022 respectively. The policies are reviewed and agreed by the Audit and Governance Committee every two years.

We note that throughout 2021/22 and 2022/23 that no issues were raised using the whistleblowing policy, it is however difficult to determine whether this indicates that no issues required raising or whether staff are not sufficiently aware of the policy or feel comfortable to speak up. **The Council should consider if staff are aware of the whistleblowing policy and if it would be beneficial to raise awareness of the policy.**

The Council's Constitution included codes of conduct for both members and officers, which were last updated in April 2023. These codes outlined the expected standards of behaviour for all council employees and elected members.

The Council published Members' registers on its website, and these registers were updated during the year. Registers have also been maintained for employees, these include gifts and hospitality and declaration of interests.

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



# Governance

## Exeter City Living (ECL)

ECL is the Council's housing development company and is a subsidiary of Exeter City Group. The aim of the company was to provide additional housing and to generate income for the Council. As at 31 March 2023, the company had been operating for four years. The Council is the sole shareholder and all reserved matters (decisions relating to a pre-determined list of matters that cannot be made by the Company Board) should be taken by the Full Council.

In 2020/21 we raised a key recommendation relating to the ECL:- *The Council should review the governance arrangements for Exeter City Living to ensure that financial performance is reported and closely monitored by the Council and that the conflict of interest between statutory officers who are also Board members is addressed.* In addition, we raised specific requirements, as set out in the table opposite. These requirements were not addressed in full.

Loans to the value of £10.066m are also held by ECF and require repayment to the Council. We understand that this is being addressed in 2023/24.

Whilst we note that a decision was made in October 2023 to significantly reduce the operations of ECL, so that it will no longer operate as a housing development company, this does not impact on 2021/22 and 2022/23 when stronger governance arrangements were required. Therefore, we have concluded that the governance arrangements in relation to ECF remained a significant weakness in 2021/22 and 2022/23.

The decision to scale down the operations of ECF was taken in 2023/24 and included; housing development to move back to the Council and ECL operations to be limited to management and maintenance of the six flats which are part of the Guildhall Shopping Complex. A third party review was undertaken and legal and financial advice sought to support this decision.

Specific requirements:	Action taken during 2021/22 and 2022/23
Approval of an annual business plan	The 2022/23 business plan was approved in February 2022 by Full Council, this included the commitment to funding projects as set out in the business plan. ECL did not produce a 2021/22 business plan.
Quarterly financial and performance reports that identify progress against the business plan	During 2021/22 and 2022/23 only one financial and performance report was presented to the Executive in September 2022. This was for the first six months of 2022/23. It provided financial information (budgeted loss expected). Information was provided on what had been achieved in the first six and next step for the following six month, but the report could have been clearer as to whether ECL was on track with regards to the business plan.
Consideration be given to publishing company business cases and reports on public agendas, with only commercially sensitive information treated as exempt from the public	Business cases were prepared by ECL and approved by the ECL board, they did not require approval by the Council and were for those projects approved by the Council within the business plan. For this reason the business cases were not available on public Council committee agendas.
Address 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	The S151 Officer and the Monitoring Officer resigned from the ECL Board in November 2022 and in February 2023 whilst two new Non-Executive Directors are appointed the Development Director and the Finance Manager were appointed to the ECL Board.

# Governance

## Governance arrangements for the Council's subsidiaries/alternative delivery models (ADMs)

In addition to Exeter City Living, during 2021/22 and 2022/23, the Council was involved in the following; Exeter City Futures Community Interest Company (ECF), Exeter Business Centre Limited, Exeter Science Park Limited, Exeter Canal and Quay Trust Limited, Monkerton Heat Company Limited, Dextco Limited and Strata Service Solutions Ltd.

### Exeter City Futures (ECF) Community Interest Company

Exeter City Futures, a Community Interest Company limited by guarantee, was established in 2015 with a view to working with partners to deliver net zero across the city. ECF provided the mechanism for partners to come together; Exeter City Council, University of Exeter, Exeter College and Royal Devon University Healthcare NHS Foundation Trust to delivery net zero by 2030.

The Council and partners had limited resources available to deliver this priority, so the Council agreed in December 2021 to second the Chief Executive and Growth Director for two days a week to ECF and the Director for Transformation to support for three days per week. Both roles began on the 2 January 2022. The aim was to review these arrangements in 12 months' time.

The Council did not receive any financial contribution from the Company for these secondments and the intention was that these secondments would act as a catalyst to progress the net zero objectives. A secondment agreement was not put in place and the Council did not define or consider how the secondments would be assessed and monitored during the year. In June 2022 a report was presented to the Strategic Scrutiny Committee which set out what was being undertaken to progress net zero. However, this report did not consider the secondments or the performance of ECF.

The secondments ended in December 2022 at the same time that a decision was reached to terminate the Chief Executive and Growth Director's employment with the Council. The Council did not review the arrangements relating to the secondment or ECF. In the summer of 2023 the ECF Board made the decision to wind-up ECF and voluntary liquidation began in August 2023. There is no public record of this decision.

Whilst we recognise that the Council is free to make a decision to second staff to other organisations, if it has followed an appropriate decision process, the Council should ensure that clear objectives are set, and that the arrangement is actively monitored to ensure efficient and effective use of resources.

We have raised an improvement recommendation on page 22: - **When the Council second employees to other organisations the Council should ensure that clear objectives are set and that arrangements are introduced to monitor and ensure efficient and effective use of resources.**

**Arrangements should also include a process to make changes or exit the secondment if the objectives are not being met.**

In addition to ECL and ECF, we considered the governance arrangements in place for all of the ADMs previously listed and found that, apart for Strata Services Solutions Limited, the following weaknesses in the governance arrangements were identified:

- no consistent approach or policy in place setting out what governance arrangements should be adopted
- lack of clear objectives against which performance could be effectively monitored
- lack of reporting of progress/performance monitoring and member oversight
- lack of clarity over who is acting as the shareholder representative.

Based on the work we have undertaken in 2021/22 and 2022/23 we have concluded that the significant weakness identified in 2020/21 has not been resolved and that the weakness is applicable to the majority of the Council's ADMs.

**The Council did not have effective and proper governance arrangements in place to be fully sighted on performance (financial and other) of its ADMs to be able to hold them to account. The arrangements in place were inconsistent, were not open and transparent and did not enable suitable challenge and scrutiny.**

# Governance

## Exeter City Futures Community Interest Company (continued)

We have raised the following key recommendation on page 7.

The Council should review the alternative delivery models with which it is involved and assess if continuing with these arrangements is appropriate and provides the best value for money. Where it is appropriate to continue the Council should strengthen the governance arrangements as follows:

- determine who will act as the shareholder representative or Council lead
- agree the objectives or benefits expected through partnership working so that performance can be effectively monitored
- introduce periodic financial and performance monitoring reports which are reviewed by members within public meetings.

## Exeter Development Fund

Whilst in operation ECF has worked in partnership with Global City Futures (consultancy firm) to develop the business case for Exeter Development Fund, also known as the 'Exeter City Fund'. This partnership has been successful in securing £850,000 in additional funds as follows:

- £380,000 in March 2021
- £470,000 in February 2022.

A small proportion of these funds £49,500, was passed to ECF and was spent to develop the Exeter Development Fund business case. The remaining funds are held by the Council within its earmarked reserves. With the wind up of ECF the responsibility and continued progression of the Exeter Development Fund has reverted to the Council.

Throughout 2021/22 and 2022/23 progress and reporting on the Exeter Development Fund was limited to the Executive in January 2022. Where the Executive were provided with the strategic business case for the Exeter Development Fund. The Combined Strategic Scrutiny and Customer Focus Scrutiny Committee were sighted on sections of the business case in April 2022, June 2022 and July 2022. There has been no public member reporting since.

In order to display the principles of good governance; openness and transparency the Council needs to ensure that members have oversight and a clear understanding of the funds received and how the Exeter Development Fund is progressing. We have raised the following improvement recommendation on page 23:- **The Council should agree which member committee should have oversight and be responsible for decision making to ensure openness and transparency.**

## Appointment of the Chief Executive/Head of Paid Services

In December 2022, the former Chief Executive left the Council following a management re-structure exercise. The Deputy Chief Executive post was to be removed from the senior management structure with effect from the 1 April 2023. Whilst a new Chief Executive was recruited, the Council's existing Deputy Chief Executive held the position of Interim Chief Executive.

A job specification and advert was developed for the post which was advertised internally. No external recruitment was undertaken. In March 2023, the Council agreed the appointment of a new permanent Chief Executive. The selection process included a Selection Committee and agreement by the Executive prior to the decision being made by the Council.

The selection process followed the procedures required as set out in the Council's Constitution. Whilst our work appropriately makes no assessment of the final decisions reached by Council on this appointment, in our view, the restriction of this appointment to internal candidates is uncommon in these circumstances and does not promote good, transparent governance arrangements. Open, external recruitment for its most senior chief officer and Head of Paid Service as a large public sector organisation represents good practice, promotes good public engagement and maximises the Council's opportunity to attract attention of all possible candidates that were suitably qualified to apply for such a key officer role.

We have raised an improvement recommendation:- **The Council should ensure that all chief officer posts are open to external candidates and advertised accordingly.**

Further details are set out on page 24.

# Improvement recommendations



## Governance

### Recommendation 2

The Council should consider if staff are aware of the whistleblowing policy and if it would be beneficial to raise awareness of the policy.

### Audit year

2021/22 and 2022/23

### Why/impact

Raising awareness of the whistleblowing policy should increase the likelihood of staff using the policy.

### Auditor judgement

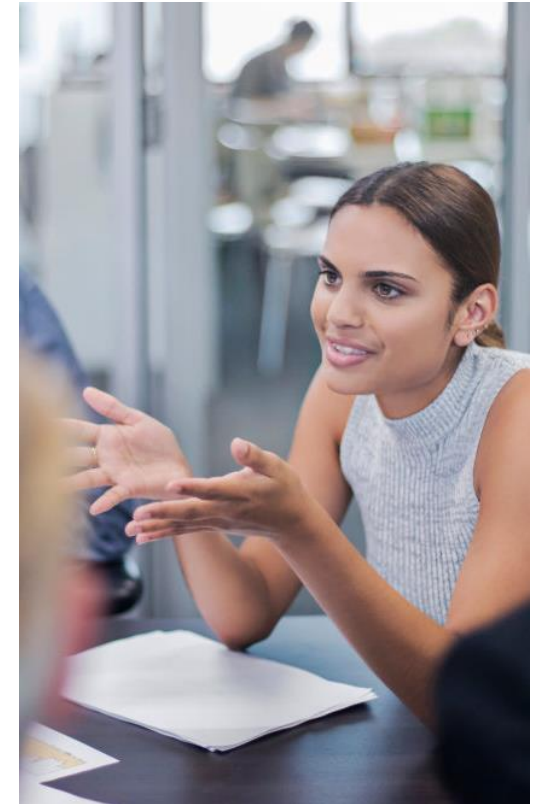
We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

No issues or concerns have been raised through the whistleblowing policy in 2021/22 and 2022/23.

### Management Comments

Noted. The Council has an annual reminder process in place which makes all staff aware of the policy and provides a line. This was last provided on 10 July 2023. However the Council has just started to use metacompliance to monitor staff awareness of policies and when the whistleblowing Policy is next reviewed, it will be added to metacompliance and reading the Policy will be mandatory.



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

# Improvement recommendations



## Governance

### Recommendation 3

The Council should strengthen the monitoring arrangements to ensure recommendations raised by external audit are followed up and completed in a timely manner.

### Audit year

2021/22 and 2022/23

### Why/impact

Introducing monitoring arrangements should improve the rate at which recommendations are addressed improves and ensures members are abreast of recommendations which are outstanding.

### Auditor judgement

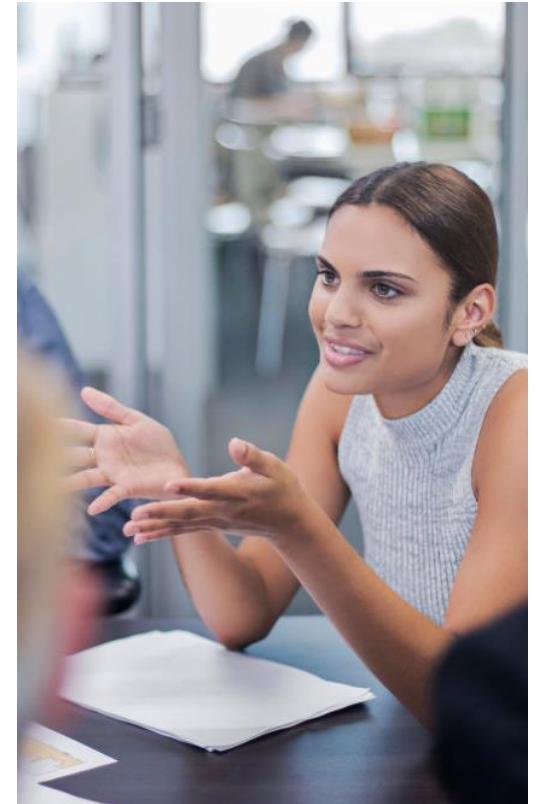
We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

The Internal Audit quarterly reports presented to the Audit and Governance Committee included commentary on high risk recommendations and issues raised in previous Internal Audit reports.  
The Council does not have a process to ensure that recommendations raised by external audit are regularly reported to the Audit and Governance Committee. In 2020/21 within our Auditor's Annual Report we raised one key recommendation and 21 improvement recommendation. The key recommendation remains outstanding and ten improvement recommendation also require addressing.

### Management Comments

Agreed – We will add a quarterly update to SMB meetings to monitor progress.



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

# Improvement recommendations



## Governance

### Recommendation 4

When the Council secondments employees to other organisations the Council should ensure that clear objectives are set and that arrangements are introduced to monitor and ensure efficient and effective use of resources. Arrangements should also include a process to make changes or exit the secondment if the objectives are not being met.

#### Audit year

2021/22 and 2022/23

#### Why/impact

These changes would ensure that the Council is clear on the purpose and objectives of the secondment and if the secondment is delivering its objectives as planned.

#### Auditor judgement

We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

#### Summary findings

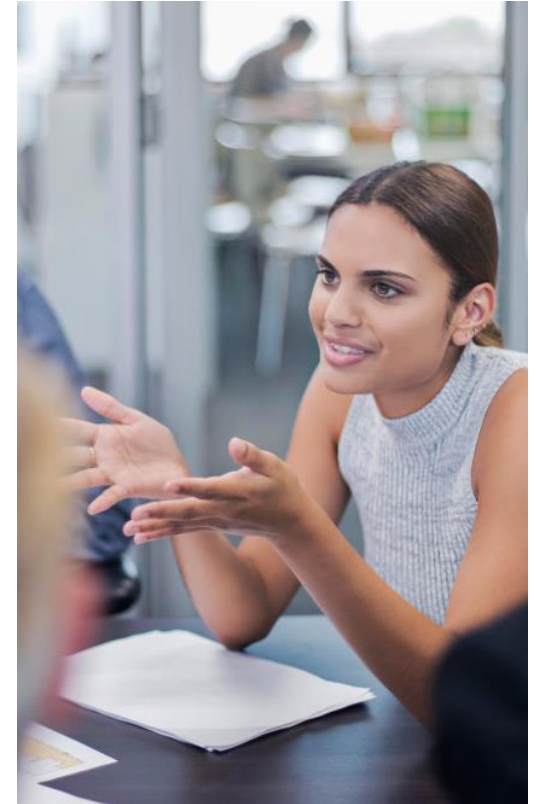
The Council agreed in December 2021 to second the Chief Executive and Growth Director and the Director for Transformation to Exeter City Futures.

A secondment agreement was not put in place and the Council did not define or consider how the secondments would be assessed and monitored during the year. In June 2022 a report was presented to the Strategic Scrutiny Committee which set out what was being undertaken to progress net zero. However, this report did not consider the secondments or the performance of ECF.

The secondments ended in December 2022 at the same time that a decision was reached to terminate the Chief Executive and Growth Director's employment with the Council. The Council did not review the arrangements relating to the secondment or ECF.

#### Management Comments

Agreed – we will implement this for all future secondments.



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

# Improvement recommendations



## Governance

### Recommendation 5

Exeter Development Fund - the Council should agree which member committee should have oversight and be responsible for decision making to ensure openness and transparency.

### Audit year

2021/22 and 2022/23

### Why/impact

Ensuring that decisions and monitoring of the Exeter Development Fund take place in a public member committee will demonstrate openness and transparency within the Council's governance arrangements.

### Auditor judgement

We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

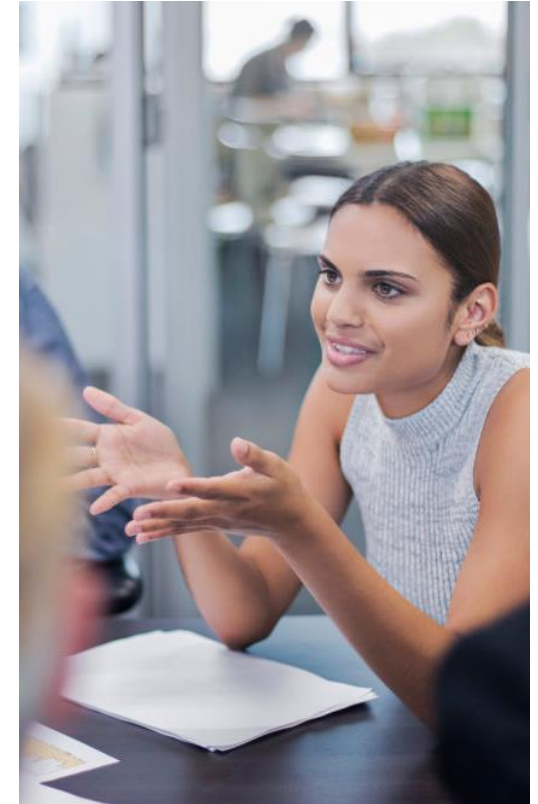
Exeter City Futures (ECF) in partnership with Global City Futures (consultancy firm) have developed a business case for Exeter Development Fund. £850,000 in additional funds has been secured.

A small proportion of these funds £49,500, was passed to ECF to develop the Exeter Development Fund business case. The remaining funds are held by the Council within its earmarked reserves. With the wind up of ECF the responsibility and continued progression of the Exeter Development Fund has reverted to the Council.

Throughout 2021/22 and 2022/23 progress and reporting on the Exeter Development Fund was limited to the Executive in January 2022. Where the Executive were provided with the strategic business case for the Exeter Development Fund. The Combined Strategic Scrutiny and Customer Focus Scrutiny Committee were sighted on sections of the business case in April 2022, June 2022 and July 2022. There has been no public member reporting since.

### Management Comments

Agreed - although it is clear that the Executive will be the decision making body, the Council will confirm scrutiny procedures. It is intended to report on the work when the current piece of work has been completed.



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

# Improvement recommendations



## Governance

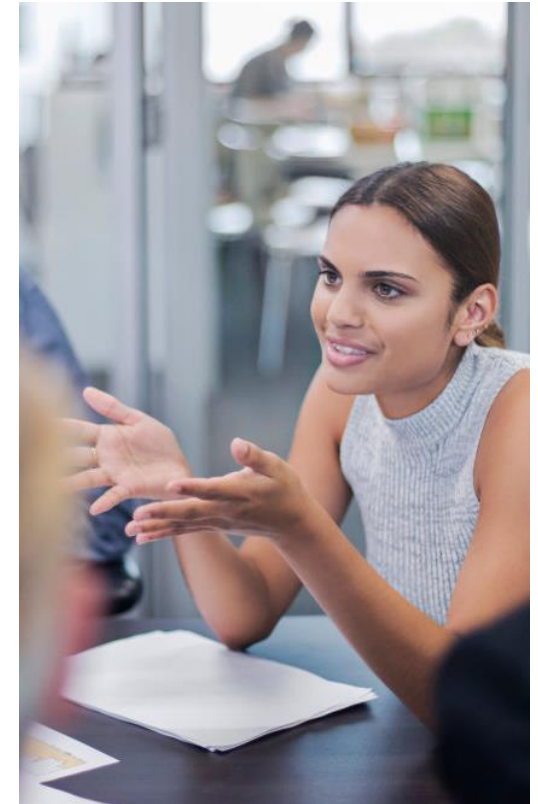
**Recommendation 6** The Council should ensure that all chief officer posts are open to external candidates and advertised accordingly.

**Audit year** 2022/23

**Why/impact** Advertising Chief Officer posts externally promotes good governance and public engagement and maximises the Council's opportunity to attract attention of all possible candidates that are suitably qualified to apply.

**Auditor judgement** We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

**Summary findings** In March 2023 the Council agreed the appointment of a new permanent Chief Executive. The selection process followed the procedures required as set out in the Council's Constitution. Whilst our work appropriately makes no assessment of the final decisions reached by Council on this appointment, in our view, the restriction of this appointment to internal candidates is uncommon in these circumstances and does not promote transparent governance arrangements. Open, external recruitment for its most senior chief officer and Head of Paid Service as a large public sector organisation represents good practice, promotes good public engagement and maximises the Council's opportunity to attract attention of all possible candidates that were suitably qualified to apply for such a key officer role.



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



# Improvement recommendations



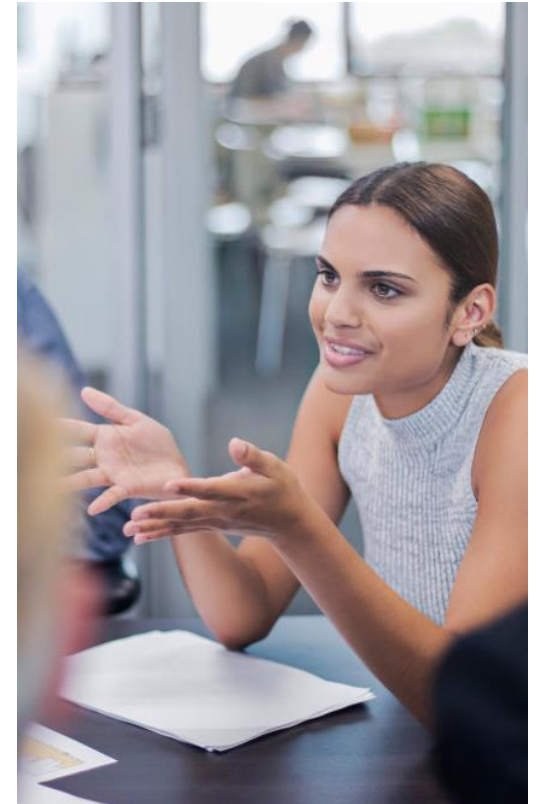
## Governance

### Recommendation 6 (continued)

The Council should ensure that all chief officer posts are open to external candidates and advertised accordingly.

### Management Comments

Not agreed. The Council had a very clear strategic direction that it wished to pursue in order to address a number of concerns raised regarding governance at the Council and other priorities set out in the Council's One Exeter programme. It was also stage 1 of a management restructure and was dependent on the reduction of one senior post and the resulting saving. The Council had tested the vision of the successful candidate on an interim basis prior to a competitive, internal process. Given that the Council had a very clear vision of the strategy it needed to pursue, if the Council had followed Grant Thornton's recommendation, it would have risked wasting thousands of pounds of taxpayers money on an external recruitment process and potential redundancy payment (up to £450,000). The process for appointing every post at the Council is considered on its own merits and an appropriate process put in place. In a period where Councils are struggling to find suitable candidates across a whole range of services, succession planning is critical to ensuring continuity of service delivery. Grant Thornton are reminded that the process for recruitment was supported by the LGA, had a panel including opposition members and the police and crime commissioner, and the appointment was unanimously approved by Full Council and no issues were raised by either the LGA or Council. The process is not illegal, nor outside of the Council's constitutional process. It is the Council's view that following the recommendation, on this occasion, would have had the opposite effect in respect of value for money. The Council has not been provided with any evidence to support the statement that this is uncommon.



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

# Improving economy, efficiency and effectiveness



## We considered how the City Council:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Managing performance

The Council has set out its intentions to implement a performance management framework to monitor the achievement of its strategic objectives as set out in the corporate plan since 2020/21. The Council has recognised this requirement within its Annual Governance Statement in 2021/22 and 2022/23. However, as of December 2023 the Council does not yet have a performance management framework in place.

As a result, the Council does not have a formal process to monitor progress against its strategic priorities as set out in its corporate plan to the Executive or Full Council.

The corporate plan in place during 2021/22 was agreed in October 2020. In October 2022 a revised corporate plan was introduced. The revised corporate plan set out that progress should be reviewed annually, this review has not taken place. Throughout 2020/21, 2021/22, 2022/23 the Council has not monitored or reported performance against its strategic priorities and has yet to do so in 2023/24. As a result, the Council does not have a corporate view on its performance and neither have scrutiny had an opportunity to challenge or review performance.

Whilst a limited number of individual performance reports have been reviewed by members, for example progress on delivering net zero - other service performance reporting has not been undertaken and consistently reported.

We are aware that the Council has been developing and issuing internal performance reports using Power BI. These reports have been developed within each service area, however are not consistent and do not enable the Council to track its strategic priorities.

Our review of the Council's arrangements for managing performance has identified a significant weakness in arrangements, a failure to have effective performance management arrangements in place to enable members to assess current performance and take appropriate action or secure improvement in areas as required. We have raised a key recommendation on page 8 - **The Council should ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the Executive or Full Council on a quarterly basis. Directorate and service performance monitoring should support and be linked to the Council's strategic priorities. A robust performance management framework should clearly set out the approach required.**

## 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 are aware that the Council has undertaken benchmarking as part of the Local Government Association (LGA) Social Housing Management Peer Challenge. As a result of this review the Council made improvements to the service provided, planned for a new consumer regulation regime for ensuring accountability to residents and addressed shared best practice approaches.

# Improving economy, efficiency and effectiveness

## Benchmarking continued

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; housing services and cultural and related services.

These high-cost areas were discussed with the S151 officer who confirmed that the Council is aware of why costs are high in comparison to others in relation to cultural services, as this includes museum services and leisure services. Whereas the reason for housing services (non-HRA) including homeless services was unknown.

Whilst benchmarking can only 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 and should investigate further those areas which have been identified as high cost. We have not raised an improvement recommendation as this was raised in 2020/21 and details can be found on page 37.

## Procurement and contract management

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 has been no quarterly review of the progress made against the Procurement Strategy by the Devon District Procurement Group in 2021/22 or 2022/23. Progress is reviewed when the Strategy is updated, with the last review carried out relating to the 2015-18 Strategy in December 2019. This was raised as a recommendation in 2020/21 and remains outstanding.

The Council had a procurement and contract procedures policy in place throughout 2021/22 and 2022/23 which was reviewed on 4 November 2021 and 19 January 2023. The policy outlines the purpose of the procedures, which includes accountability in how procurement and contract management is undertaken, seeking value for money through competition, and acting in a joined-up manner consistent with considering category spend requirements across the whole Council and not in isolation.

We found no evidence of the Council failing to operate a fair procurement exercise and found no evidence of repeated commissioning from review of the contracts register. The head of procurement confirmed that procurement professionals help in the tender process, which is always signed off before procurement happens. This ensures that all procurement exercises are conducted fairly and in compliance with the Council's procurement procedures and regulations.

The Council had an agreed waiver process in place throughout 2021/22 and 2022/23. In 2021/22, 38 waivers to the value of £4.962m were reported and 29 for £3.18m in 2022/23. From our review of these waivers, we noted that although these waivers were reported to the Senior Management Board, Portfolio Holders, Section 151, and Monitoring Officer on a quarterly basis, they were not reported to members. In order to improve openness and transparency **the Council should consider reporting the numbers and reason for waivers to members in a public meeting such as Audit and Governance Committee.**

Through discussions with officers we have established that the Council does not have a corporate approach to contract management and that effective contract management is not embedded across the Council. Contract management is a recognised weakness and in June 2023 the SMB approved a proposal to engage relevant officers in the Cabinet Office Contract Management training. Introducing contract management training was an improvement recommendation raised in 2020/21 which remains outstanding.

Within the procurement team a forward plan which acts as an operational pipeline is maintained, but this is not available corporately or across the service areas. We recommend that the Council should maintain a contracts pipeline that would identify contracts as they come up for renewal and is reliant on reviewing the contract register and checking in with procurement leads to find out what they have coming up in the next three months.

Our work has not identified any areas of significant weakness regarding how the Council manages its procurement, we have raised three improvement recommendations.

# Improving economy, efficiency and effectiveness

## Partnerships

In 2021/22 and 2022/23, the Council maintained a partnership register to ensure that partnerships meet its agreed partnership protocol. The register was reviewed and updated annually and published on the intranet, and it was also reviewed by SMB. The Council uses partnership guidance to categorise its partnerships, but these partnerships are not linked to the corporate plan objectives.

The Council has reported progress on specific partnerships to members and Wellbeing Exeter, a key partnership is an example of this. In July 2021 a report to Council described the proposed continuation of the Wellbeing Exeter program and associated governance review.

**We have identified a significant weakness regarding how the Council governs its subsidiaries and ADMs. This significant weakness was raised on page 7. We have not found evidence of significant weaknesses within its other strategic partnerships. However, we have raised an improvement recommendation to explore opportunities to link its partnerships to the corporate plan to ensure that they are aligned with overall objectives and priorities.**



# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 7

The Council should consider reporting all contract waivers to members.

## Audit year

2021/22 and 2022/23

## Why/impact

Reporting all contract waivers to members would ensure transparency and accountability in the Council's decision-making processes and ensure that all members are aware of any movement away from standard procurement procedures and can hold the Council accountable for its decisions.

## Auditor judgement

We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

## Summary findings

From our review of agreed waivers for 2021/22 and 2022/23 there was no evidence that these waivers were reported to members. This may suggest a lack of transparency in the Council's decision-making process. It is important for members, to be informed about any exceptions to standard procedures or conflicts of interest to ensure that decisions are made in the best interest of the Council and its constituents and to enable appropriate challenge.

## Management Comments

Agreed – we will introduce a procurement update report to Members, which will include the list of contract waivers. This will either be to the Executive or via the Scrutiny Bulletin.



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

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 8

The Council should consider how it can improve and strengthen contracts management and develop a corporate contracts pipeline that would identify contracts as they come up for renewal.

## Audit year

2021/22 and 2022/23

## Why/impact

Maintaining a contracts pipeline would make it easier for contracts coming up for renewal to be identified and should reduce the number of waivers required.

## Auditor judgement

We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

## Summary findings

Contract management is recognised as weakness by the Council. In order to identify contracts coming up for renewal the Council is reliant on reviewing the contract register and checking in with procurement leads to find out what they have coming up for renewal in the next three months.

## Management Comments

Agreed – although the Council has a contracts register and is aware of the pipeline of contracts, contract management needs strengthening and is one of the areas being considered as part of the overall One Exeter programme, with a view to ensuring a more consistent approach across the Council. Additionally, training has been identified and will be implemented as soon as possible.



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

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 9

The Council has a partnerships register and should consider linking each partnership to the corporate objective to which contributes.

## Audit year

2021/22 and 2022/23

## Why/impact

This will ensure that partnerships are focused on achieving specific outcomes that are aligned with the Council's strategic goals.

## Auditor judgement

We have not identified any significant weakness in arrangements, but we have raised a recommendation to support management in making appropriate improvements.

## Summary findings

The Council maintains a register for its partnerships which highlights the scope of what needs to be achieved and how, it has a wide range of partnerships but they are not linked to the corporate plan objectives.

## Management Comments

Agreed – we will add a link to the relevant corporate objective for each of the partnerships.



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

# Follow-up of previous key recommendation

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 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:</p> <ul style="list-style-type: none"> <li>the Council approves an annual company business plan;</li> <li>the Council receives detailed quarterly financial and performance update reports that identify progress against the business plan;</li> <li>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;</li> <li>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.</li> </ul>	Key Recommendation	July 2022	<p>Some improvements were made in 2022/23, as follows:</p> <ul style="list-style-type: none"> <li>approval of the 2022/23 business plan was in February 2022 by Full Council; a business plan was not produced in 2021/22</li> <li>the presentation of one financial and performance report to the Executive in September 2022. This covered the first six months of 2022/23; the report could have been clearer as to whether ECL was on track with regards to the business plan</li> <li>business cases throughout 2021/22 and 2022/23 were not available to the public</li> <li>the S151 Officer and Monitoring Officer resigned from the Board.</li> </ul> <p>Whilst we recognise that some progress was made we considered that insufficient improvements were made and that the significant weakness remained in place during 2021/22 and 2022/23</p> <p>Whilst we note that a decision was made in October 2023 to significantly reduce the operations of ECL, following a review by Local partnerships, so that it will no longer operate as a housing development company, this does not impact on 2021/22 and 2022/23 when stronger governance arrangements were required.</p> <p>As at October 2023 ECL had loans to the value of £10.066m outstanding, which remain payable to the Council.</p>	No	See key recommendation raised on page 7.



# Follow-up of previous improvement recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council should ensure that it consults with residents and businesses as part of the budget process.	Improvement Recommendation	July 2022	In 2022/23 no consultation was undertaken and in 2022/23 consultation was limited to the Exeter Chamber and the InExeter Business Improvement District Board. Public consultation has not been undertaken on the 2022/23 budget or the 2023/24 budget including the proposed savings.	Partial	Address the original recommendation and consult with residents.
2	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.	Improvement Recommendation	July 2022	The Council began reporting savings delivery (One Exeter programme budget reductions) from the first quarter of 2022/23. The detail was provided as an appendix to the quarterly budget monitoring reports. The first three quarterly reports RAG rated each saving scheme providing an indication of the expected delivery and each saving was RAG rated. The final report provides the final year end position.	Yes	No
3	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.	Improvement Recommendation	July 2022	The Council has scaled back its approach to commercialisation and is no longer looking to make savings in this area. The income generation workstream in the One Exeter programme is now focused on car park income rather than commercialisation.	No longer applicable	No

# Follow-up of previous improvement recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	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.	Improvement Recommendation	July 2022	The MRP position is now consistently reported in the budget and the MRP statement.	Yes	No
5	The key treasury monitoring and outturn reports should include MRP forecasts against budget in addition to interest receivable and payable.	Improvement Recommendation	July 2022	This recommendation has been implemented in 2023/24 in the Treasury Management mid-year report.	Yes	No
6	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.	Improvement Recommendation	July 2022	The Council has interpreted the regulations differently to our view and has continued to apply existing MRP principles in 2021/22 and 2022/23. Recognising the recent decision made around the future operations of ECL, additional MRP has been provided for in 2023/24.	Partial	Address the original recommendation
7	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.	Improvement Recommendation	July 2022	The Council has not undertaken a risk-based of the minimum level of reserves. This would require quantifying each individual risk.	No	Address the original recommendation

# Follow-up of previous improvement recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	The risks within the corporate risk register should be mapped to corporate objectives.	Improvement Recommendation	July 2022	The Council has reviewed its risk register and now aligned to the Corporate objectives as evidenced in the risk register presented to the Audit and Governance Committee on 27 September 2023.	Yes	No further action
9	The Audit and Governance Committee should formally review and approve the Council's Risk Management Policy at regular intervals.	Improvement Recommendation	July 2022	Outstanding The policy was last reviewed and updated in February 2015	No	Implement original recommendation
10	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.	Improvement Recommendation	July 2022	The quarterly progress reports provided to the Audit and Governance Committee now include a summary on high-risk recommendations	Yes	No further action
11	The Council should ensure that e-procurement is rolled out across the organisation and appropriate controls around electronic orders enforced.	Improvement Recommendation	July 2022	The Council rolled out eProcurement across the whole organisation in September 2022, along with a reiteration of the rule around purchase orders and that they are required for all invoices.	Yes	No further action
12	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.	Improvement Recommendation	July 2022	Implemented The anti-money laundering policy was agreed in March 2023 and the counter fraud strategy in November 2022.	Yes	No

# Follow-up of previous improvement recommendations

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
13	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.	Improvement Recommendation	July 2022	This was addressed in 2021..The Code of Conduct requires gifts over £50 to be declared.	Yes	No further action
14	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.	Improvement Recommendation	July 2022	Outstanding We understand that this process is currently underway.	No	Implement original recommendation
15	The responsibility for sending reminders to staff of the requirement to declare interests, gifts and hospitality should be established and annual reminders sent.	Improvement Recommendation	July 2022	Outstanding	No	Implement original recommendation
16	Completed Scrutiny Programme Board proformas, which include the reasons why a scrutiny request is accepted or rejected, should routinely be available to all Members.	Improvement Recommendation	July 2022	Outstanding The Scrutiny Programme Board (SPB) proformas are completed and submitted to request a subject to be considered by one of the Council's scrutiny committees. The SPB have to consider requests from Members via proformas, the Council, the public and proposals from Executive, Strategic Management Board (SMB) or Scrutiny Committees. SPB do not routinely provide feedback on the outcome of the proforma requests to all Members.	No	Implement original recommendation

# Follow-up of previous improvement recommendations

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
17	Through the One Exeter programme, the Council should ensure that key service performance indicators are agreed and reported on a quarterly basis to Executive.	Improvement Recommendation	July 2022	Service performance and progress against the Council's strategic priorities has not been reported to the Executive in 2021/22 or 2022/23.	No	See key recommendation on page 8
18	The Council should consider the need for a data quality policy as part of the review and implementation of the performance management framework.	Improvement Recommendation	July 2022	Outstanding	No	Implement original recommendation
19	The Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved, or services improved.	Improvement Recommendation	July 2022	Outstanding	No	Implement original recommendation
20	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.	Improvement Recommendation	July 2022	Outstanding	No	Implement original recommendation
21	The Council should ensure that procurement and contract management training is rolled out to appropriate officers.	Improvement Recommendation	July 2022	Outstanding The training has been approved but has yet to be rolled out.	No	Implement original recommendation

# Opinion on the financial statements for 2021/22 and 2022/23



## Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We will conduct our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

We have not yet completed the 2021/22 and 2022/23 financial statement audits for Exeter City Council. Once these audits are completed this Auditor's Annual Report will be updated for any significant findings and issued as a final version.



# Appendices

# Appendix A – Responsibilities of the City Council

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.

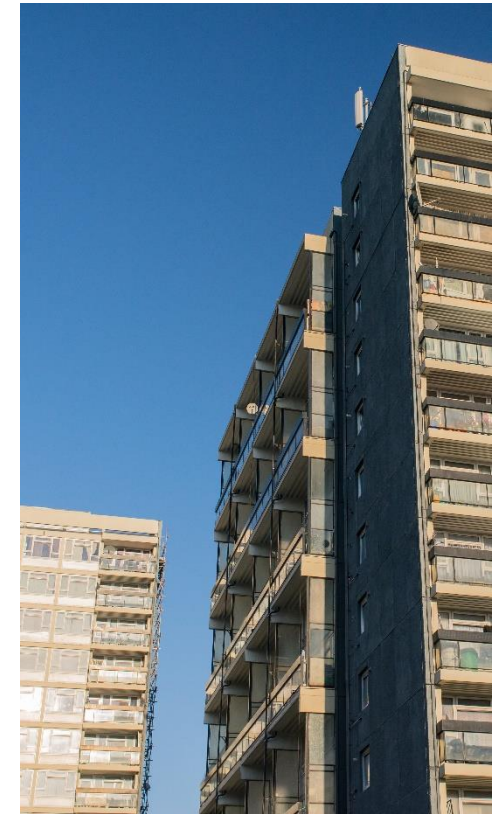
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 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 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 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 is responsible for assessing the City 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 City Council will no longer be provided.

The City 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 Councils 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:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 and 2022/23	Financial sustainability was identified as a potential significant weakness.	We considered: <ul style="list-style-type: none"> <li>• savings plans identified to date</li> <li>• delivery of the 2022/23 budget and financial plan</li> <li>• potential funding gaps in financial planning.</li> </ul>	We have not identified a significant weakness in arrangements.	Appropriate arrangements in place.
2021/22 and 2022/23	Governance arrangements relating to Exeter City Living and was identified as a potential significant weakness, see page 7 for more details.	We considered the governance arrangements in place including overall monitoring and management by members through the Council's democratic processes.	Adequate arrangements were not in place in 2021/22 and 2022/23	The significant weakness identified in 2020/21 remains in place for 2021/22 and 2022/23 and have identified a new significant weakness. One key recommendation raised on page 7.
2021/22 and 2022/23	Improving economy, efficiency and effectiveness was not identified as a significant weakness.	No additional work was undertaken	A significant weakness was identified during our review relating to performance management arrangements.	A key recommendation was raised on page 8.

# Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the City Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	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 City Council. We have defined these recommendations as ‘key recommendations’.	Yes	Pages 7 and 8.
Improvement	These recommendations, if implemented should improve the arrangements in place at the City Council, but are not a result of identifying significant weaknesses in the City Council’s arrangements.	Yes	Page 14 Pages 20-24 Pages 29-31

