

Auditor's Annual Report on Mid Devon District Council

2020-21

9 March 2022



Contents



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

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



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

Executive summary



Value for money arrangements and key recommendation(s)

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

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant budget pressures relating to Covid-19 that included additional waste and recycling agency costs, and reductions in income particularly in relation to carparking and leisure services. The Council administered £27.9m in government funded grants to support businesses through the pandemic. Against this background, and after accounting for government funding of £1.2m in Covid-19 support grant and £2.0m reimbursement for lost income, the Council achieved a budget deficit of just £0.065m against the original forecast for the year.

We have not identified any significant Value for Money (VFM) weaknesses, but have identified thirteen opportunities for improvement which are set out in detail within our report.

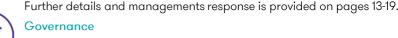
Criteria		Risk assessment	Finding
Financial sustainability		A risk of significant weakness was identified in relation to financial planning.	No significant weaknesses in arrangements identified, but seven improvement recommendations made
Governance		A risk of significant weakness was identified in relation to the governance arrangements for 3 Rivers.	No significant weaknesses in arrangements identified, but four improvement recommendations made
Improving economy, efficiency and effectiveness		No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made
	No sig	gnificant weaknesses in arrangeme	nts identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.		
		Significant weakness in arrangements identified and key recommendation made.	



Financial sustainability

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

- the detailed narrative in the budget report regarding assumptions and minimum levels of reserves should be accompanied with an explicit Section 25 statement from the chief finance officer confirming their robustness and adequacy,
- · ensuring consistency between the 3 Rivers business plan and the budget,
- where significant uncertainties exist within financial planning, then a scenario analysis should be included within the medium term financial plan (MTFP),
- the actual inflation assumptions should be included within the MTFP,
- realistic savings targets should be agreed for inclusion within the MTFP,
- ensuring compliance with the revised 2003 Regulations when they are published by providing prudent minimum revenue provision (MRP) on capital loans,
- treasury management reports should contain the budget and outturn information where relevant, for interest income, interest costs and MRP.





- strengthening the corporate and 3 Rivers risk registers,
- budget reports should distinguish between recurring and non-recurring variances,

significant weakness. We have made improvement recommendations with regard to:

• continuing to closely monitor the financial performance of 3 Rivers.

Further details and managements response is provided on pages 24-27.



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

- · routinely benchmark service costs in order to identify potential efficiencies,
- consider the need for a partnership register and strategy.

Further details and managements response is provided on pages 31-32.

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Opinion on the financial statements

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

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

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

Our audit work was completed remotely during June to November 2021. Full details of our findings from the audit are reported in our Audit Findings Report dated 1 December 2021.

Material adjustments were required to the financial statements in relation to the advance contribution payment to the pension fund. Other non-material disclosure adjustments were also identified.

We have made a recommendation that audits are undertaken for all group companies.

We gave an unqualified opinion on the Council's 2020/21 financial statements on 1 December 2021.



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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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





Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 6 to 32. Further detail on how we approached our work is included in Appendix B.

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Financial sustainability



We considered how the Council:

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

Outturn 2020/21

The 2020/21 General Fund (GF) outturn position was a £0.07m deficit against the original budget. This outturn position reflects financial pressures associated with the pandemic including £0.5m in reduced car parking income, a £2.6m reduction in leisure income and £0.2m additional agency costs for waste and recycling services. The Council received significant financial support from the government to fund the costs of the pandemic, including £1.2m in general Covid-19 support grant and £2.0m in compensation for lost sales, fees and charges.

The deficit at year end was funded through the use of unallocated GF balances. Within the outturn position the Council was able to make a net £6.6m contribution to reserves, including £3.4m grant funding to address the deficit in the Collection Fund over the next three years, as well as significant contributions to the waste infrastructure and fleet contract funds. Unspent budgets were also rolled forward into 2021/22 to fund commitments relating to homelessness support, planning and regeneration, and climate change.

The Housing Revenue Account (HRA) achieved a £0.09m surplus for 2020/21 which was transferred to earmarked reserves.

The Council incurred GF capital expenditure of £4.4m against a budget of £29.5m for the year, although a reduced deliverable capital budget of £11.1m was reported at Quarter One which took into account the impact of the pandemic. Slippage of £21.7m was carried forward to future years, relating to 3 Rivers Developments, the Cullompton Relief Road and the NHS Hub.

HRA capital expenditure was £2.6m against a budget of £7.4m, although again at Quarter One a reduced deliverable budget of £3.4m was identified. Slippage of £4.3m was carried forward to future years.

Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability and made financial forecasting difficult as new periods of national lockdown were announced and additional tranches of government support allocated to councils. The Council revised its spending plans through an emergency budget presented to Cabinet in October 2020. At this point total pandemic related pressures were forecast at £4.4m, with additional non-Covid-19 pressures of £0.4m. Savings and government grant funding of £3.0m were identified, leaving a deficit of £1.8m that was forecast to be met in the main from the income compensation grant, leaving a £0.3m deficit left to fund.

At Quarter One, when there was no certainty as to the level of government financial support, the Council was forecasting that the cost of the pandemic could result in a year-end deficit of £1.5m. The Council continued to monitor the costs of the pandemic through the monthly Covid-19 financial management returns to the government, and as the financial year progressed and both costs and support became more certain, the net position reported to Members improved.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as another tranche of general Covid-19 funding, additional sales, fees and charges (SFC) compensation grant, and a new one-off tranche of New Homes Bonus grant. The Council included the £0.4m Covid-19 support grant and £0.2m SFC grant in the base budget.

Funding within the budget also includes a 2.39% or £5 increase in council tax in accordance with referendum principles.

The 2021/22 budget is not heavily reliant on achieving service savings to balance the overall financial position. In addition to the settlement announcements, balancing the £3.0m budget gap identified in December 2020 included reductions in pay award forecasts, a vacancy management factor, delaying asset maintenance and reduced treasury management costs. The one-off release of £0.2m in earmarked reserves and £0.4m in New Homes Bonus grant was also required. We have made further comment on the Council's plans to generate savings to balance future budget gaps within the Medium Term Financial Plan section of this report.

The budget report for 2021/22 provides a clear and detailed narrative on the key budget assumptions, risks and uncertainties, and the minimum level of unallocated reserves. There is however no formal statement from the chief finance officer, in accordance with s25 of the Local Government Act 2003, on the robustness of the estimates made and the adequacy of reserves. We have made an improvement recommendation that the chief finance officer should make a formal and explicit statement on these matters in accordance with the 2003 Act.

There is adequate engagement from Members during the budget setting process. Policy Development Groups considered draft budget proposals in November and January prior to the final budget being approved in February 2021. Scrutiny Committee considered the draft budget in January 2021. Businesses were also consulted on the budget proposals. The Council consults with residents every two years, with the last consultation held in Autumn 2019. As the Council develops a more strategic approach to identifying savings to balance

the budget, it should ensure that relevant stakeholders are consulted in order to identify priorities for resource allocation and the impacts of service reduction.

We have reviewed the consistency between the Council's 2021/22 budget, Treasury Management Strategy and the 3 Rivers Developments business plan that were approved in February 2021. The capital programme reflects the £13.7m loan drawdown in the business plan once slippage is taken into account, with a revised deliverable programme reported to Cabinet in August 2021 which is consistent with the business plan. The loan drawdown is also reflected in the commercial activity within the Treasury Management Strategy. We note that there is not a reconciliation of the £25.3m commercial capital financing requirement disclosed in the Treasury Management Strategy to the £20.8m loans outstanding in the business plan as at 31 March 2022. The Councils revenue budget includes £0.4m interest income from 3 River's loans, which differs to the business plan's estimate of £0.7m.

We have raised an improvement recommendation that the Council should review the difference in interest income to ensure consistency between the 3 Rivers business plan and the revenue budget, and provide reconciliations to the commercial capital financing requirement in the Treasury Management Strategy. Under the revised shareholder agreement approved by Cabinet in June 2021, the date for agreeing the 3 Rivers business plan has been brought forward to 30 November each year, which will provide sufficient time to ensure it is reflected in the annual budget process.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements but have identified two improvement recommendations to further strengthen the process.

Medium term financial plan (MTFP)

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

Due to uncertainties around the timing and impact of funding reforms, the December 2020 MTFP does not model potential reductions in business rate income over the four year period.

There is an expectation from officers that transitional grants would mitigate any adverse impact of funding reform on the Council. The calculation of the minimum prudent level of GF balances also includes an assessment for funding reductions. We have made an improvement recommendation that where significant uncertainties exist within financial planning, then a scenario analysis should be included within the MTFP to give the range of potential impacts. This would assist in the understanding of risk within the MTFP assumptions. We note that the October 2021 MTFP does include a £0.5m reduction in business rates due to the business rate reset.

The December 2020 MTFP report provides a sensitivity analysis for the financial impact of a 1% or 5% change in inflation assumptions for staffing, business rates and utilities. The actual assumptions used for these costs are not provided in the report. We have made an improvement recommendation that the key assumptions appendix within the MTFP would be strengthened if this information was provided.

The Council keeps its financial plans under review and Members are kept informed throughout the budget process. Cabinet considered the draft 2021/22 budget in October, with further updates to the MTFP and budgets considered in December and January, before the final budget was approved in February 2021. The cumulative budget gaps identified in the December 2020 MTFP are set out in the table below.

Cumulative budget gaps identified in the December 2020 MTFP					
Year	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Cumulative budget gap	0	3.012	2.238	2.158	1.148

The budget and MTFP reports presented to Cabinet as part of the 2021/22 budget setting process recognise that a strategic approach to identifying savings is required to balance the financial position in future years. The December MTFP set out a high level approach to closing the budget gap that included reductions in service cost, spend to save projects and

exploring new commercial opportunities.

The 2021/22 budget is not heavily reliant on achieving service savings to balance the overall financial position. The February 2021 budget report confirms that the 2021/22 budget provides for broadly the current level of service provision to continue.

Evidence of a strategic approach to identifying savings is provided through the October 2021 MTFP. This identified various budget options, some costed and others to be worked up, which formed the basis for discussions within the relevant Policy Development Groups for the 2022/23 budget. A range of options were identified, including income generation, transformation and service reduction. Policy Development Groups were not able to identify the full £0.5m savings target allocated to them. The 2022/23 budget was balanced though adjustments to capital financing costs, increases to business rate income, the release of earmarked reserves and the use of New Homes Bonus.

We have made an improvement recommendation that the Council should ensure that realistic savings targets are agreed for inclusion within the MTFP. When setting savings targets it should be ensured that they are sufficient to bridge the gaps identified in the MTFP, even if there is slippage to the plan. Savings targets should be separately identified and monitored using RAG ratings during the financial reporting cycle. The monitoring of savings targets will be increasingly important as the Council implements a more strategic approach.

As part of financial planning the Council will need to ensure that it identifies and models the financial implications of climate change and the Council's declaration to become carbon neutral by 2030. This is recognised in the Council's corporate risk register and provision has been made in the 2021/22 budget for a climate change coordinator to take this work forward.

We have found no evidence of significant weakness in the Council's financial planning arrangements. Improvement recommendations have been identified to further strengthen arrangements in relation to scenario modelling and ensuring savings targets are set.

Capital strategy and treasury management

The Council approved the Capital Programme, Capital Strategy and Treasury Management Strategy during February 2021. These documents set out the Council's capital expenditure, capital financing, minimum revenue provision and borrowing projections.

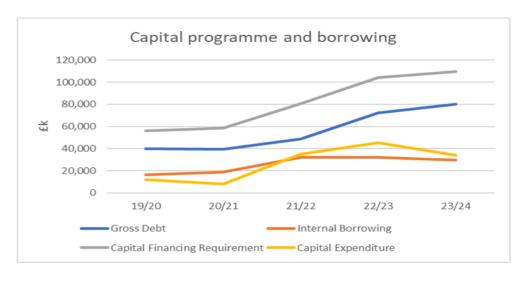
The Council approved a General Fund capital programme of £75.1m for the period 2021/22 to 2024/25. Of this £43.7m relates to development projects mostly delivered through 3 Rivers, and £19.8m relates to the HiF schemes at Cullompton Town Centre and the A361 Junction. Other significant capital allocations include disabled facility grants (£2.3m) and the depot design and build (£3.8m). The capital programme supports corporate priorities including climate change, regeneration and housebuilding.

The HRA capital programme for the same period totals £35.2m to deliver both housing development and major repairs to housing stock.

The total approved programme of £110.3m is funded from £67.1m of borrowing and £17.2m from HiF grant, with the remaining funding coming from capital receipts and reserves.

The Capital Strategy combines the approved capital programme with forecast slippage from previous years. The Council's capital financing requirement (CFR) is forecast to increase by £22.0m in 2021/22 to a total of £80.5m. Much of this increase is driven by the commercial activity with 3 Rivers and the Crediton NHS Hub, with the commercial element of the CFR increasing by £15.7m in 2021/22. A further increase in the total CFR of £23.8m is forecast for 2022/23, with commercial activity again accounting for a significant proportion. As the CFR increases the Council is forecast to increase external debt levels from £39.6m in 2020/21 to £72.3m by 2022/23. An increase in internal borrowing is also forecast over this period which is consistent with the Council's investment strategy in order mitigate the effect of low interest rates and counterparty risk with treasury investments.

The graph opposite demonstrates the forecasts made in the Capital Strategy for increases in the CFR and borrowing as the Council delivers its capital programme. As the Council increases its external and internal borrowing it should ensure that financing costs are reflected in the budget.



We reported in the Audit Findings Report 2020/21 that the Council are not charging minimum revenue provision (MRP) against the £10.2m of capital loans with 3 Rivers Developments. In our view prudent MRP must be determined with respect to the authority's total capital financing requirement including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans. We have made an improvement recommendation that the Council should ensure that it complies with the revised 2003 Regulations when they are published.

The revenue budget includes £0.4m of interest income from the commercial loans made to 3 Rivers Developments. These loans score against the Council's capital expenditure in the year that they are made. The company has used these loans to fund housing development projects within the Council's administrative area.

Commercial investment by local authorities has been under increasing scrutiny from HM Treasury and CIPFA. The PWLB introduced new lending terms in November 2020 which

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support borrowing for Council functions, including housing and regeneration. Councils cannot access PWLB funding if they have investments purely for yield in their 3-year capital programmes. CIPFA, through the revised Prudential Code published in December 2021, have confirmed that commercial investments funded from borrowing are not regarded as prudent activity for Councils to undertake. Going forward if the Council considers further commercial activity, including non-housing schemes through 3 Rivers, they will need to ensure that they are not investing in assets purely for yield in order to ensure compliance with the Prudential Code and continued access to PWLB funds. The activity of 3 Rivers to date has supported the Council's housing and regeneration priorities within the Council area.

The Council undertook daily cash flow monitoring during 2020/21. The Council was able to continue its strategy of internal borrowing and make use of its cash balances to support capital expenditure. The internal borrowing position against the CFR increased by £2.2m to a total of £18.4m at the year end. No additional external borrowing as undertaken during 2020/21.

The Annual Treasury Management Review 2020/21 reports the interest income achieved for internally managed funds (£0.1m), property funds (£0.2m) and 3 Rivers (£0.5m). The report does not compare this outturn position to the budget so that performance can be measured. The outturn for interest cost and MRP is not disclosed. We also note that the Treasury Management Strategy 2021/22 does not provide the budgets for MRP, interest income or interest cost. This information is however presented in the GF budget summary that accompanies the budget setting and outturn reports and so is available to Members. We have made an improvement recommendation that the Treasury Management Strategy and Annual Review reports should contain the budget and outturn information where relevant, for interest income, interest costs and MRP. This is in order to present a complete picture of treasury activity within the key treasury reports.

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

Reserves and risk mitigation

The Council holds unallocated GF balances that are maintained to mitigate the impact of unforeseen budget variances. The prudent level of unallocated GF reserves was approved as £2.0m in January 2020, and is supported by an analysis of the financial risks that the Council is exposed to. These include changes to funding levels, the business rate reset, reductions in income and 3 Rivers Developments.

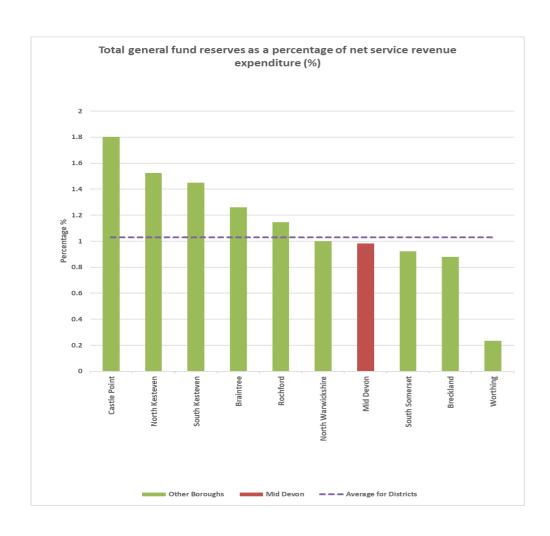
The 2021/22 budget report confirms that £2.0m remains the minimum recommended prudent level for the GF balance. This represents 15.5% of the £12.9m net cost of services for 2021/22 and so is above the CIPFA benchmark of 5%-10% of the net budget. The GF balance as at 31 March 2021 was in excess of this level at £2.2m. The budget report confirms that due to the post Covid-19 financial challenges that the Council faces, these reserves should be maintained at the highest level possible.

The Council also holds earmarked revenue reserves, which increased from £13.7m at 1 April 2020 to £20.2m as at 31 March 2021. Within this balance are reserves which are also available to mitigate the financial risk that the Council faces. These include:

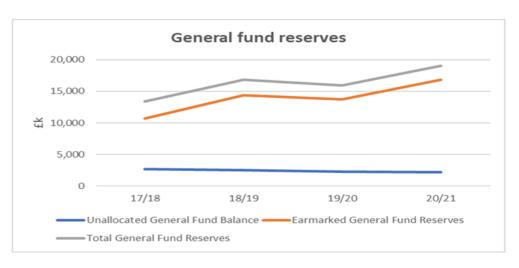
- post Covid-19 income recovery £0.3m,
- support for the 2021/22 budget £0.2m,
- \bullet business rate reserve £4.0m, including the £3.4m grant to fund the collection fund deficit,
- various equipment, maintenance and plant sinking funds that total £1.6m.

The Council does not include a base budget contingency within the annual revenue budget, instead maintaining reserves as set out above in order to manage and mitigate risk.

The graph overleaf demonstrates that the Council is not an outlier when compared to nine "nearest neighbours" for the total level of unallocated and earmarked revenue reserves in proportion to net service spend. The Council's reserves represent 98.4% of net service spend compared to an average of 103.0%. The data is derived from the 2019/20 financial statements because 2020/21 includes the significant S31 Collection Fund grants thus making comparisons difficult.



Analysis of the Council's total earmarked and unallocated revenue reserves over the last four years shows that they have increased from £13.4m in 2017/18 to £19.0m in 2021/22. To aid consistency, the £3.4m S31 grant that the Council holds as at 31 March 2021 to fund the Collection Fund deficit has been removed. Resources have been reallocated from the unallocated GF balance in accordance with the minimum prudent level approved by Members, but overall levels of reserve have increased as demonstrated in the graph below.



The Council has utilised one-off reserve funding to balance the budget in 2021/22. In addition to the surrender of £0.2m of earmarked reserves, the residual budget gap of £0.4m was bridged through the use of New Homes Bonus. In total the 2021/22 revenue budget was dependent on £0.9m of New Homes Bonus funding including contributions to the equipment sinking fund and heritage action zone. The capital programme utilises £1.0m, bringing the total New Homes Bonus funding that supports the 2021/22 budget to £1.9m. This compares to an annual allocation of £1.0m.

The budget report highlights the dependence of the revenue and capital budgets on New Homes Bonus funding and the risk associated with the future of this funding stream. As previously stated, we have made an improvement recommendation that the Council should ensure that realistic savings targets are agreed for inclusion within the MTFP. This would reduce the Council's reliance on the one-off surrender of reserves or reliance on New Homes Bonus.

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





1	Recommendation	The detailed narrative in the budget report regarding assumptions and minimum levels of reserves should be accompanied with an explicit Section 25 statement from the chief finance officer confirming their robustness and adequacy.
	Why/impact	The formal s25 statement will assist Members in understanding the financial risks and mitigating actions when approving the annual budget.
	Summary findings	The budget report for 2021/22 provides a clear and detailed narrative on the budget assumptions, risks and uncertainties, and the minimum level of unallocated reserves. There is however no formal statement from the chief finance officer, in accordance with s25 of the Local Government Act 2003, on the robustness of the estimates made and the adequacy of reserves.
	Management comment	The S25 report of the CFO is included within the Council Tax Resolution to Full Council each year. Although the key supporting information supporting the CFO's views on the Robustness of the Budget and the Adequacy of Reserves was included, it is acknowledged that the explicit statements were not included within the 2020/21 report. This was amended and these statements were clearly highlighted within the 2022/23 Council Tax Resolution report.



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



2 Recommendation

The Council should review the difference in interest income to ensure consistency between the 3 Rivers business plan and the Council's revenue budget, and provide reconciliations to the commercial capital financing requirement in the Treasury Management Strategy.

Why/impact

The financial plans of the Council should reflect the plans of its wholly-owned subsidiary.

Summary findings

We have reviewed the consistency between the Council's 2021/22 budget, Treasury Management Strategy and the 3 Rivers Development's business plan. The capital programme reflects the £13.7m loan drawdown in the business plan once slippage is taken into account. The loan drawdown is also reflected in the commercial activity within the Treasury Management Strategy. We note that there is not a reconciliation of the £25.3m commercial capital financing requirement disclosed in the Treasury Management Strategy to the £20.8m loans outstanding in the business plan as at 31 March 2022. In addition, the Council's revenue budget includes £0.4m interest income from 3 River's loans, which differs to the business plan's estimate of £0.7m.

Under the revised shareholder agreement approved by Cabinet in June 2021, the date for agreeing the 3 Rivers business plan has been brought forward to 30 November each year, which will provide sufficient time to ensure it is reflected in the annual budget process.

Management comment

It is acknowledged that the assumptions included within the Capital Programme differed slightly to those included within the 3 Rivers Business Plan in 2020/21. This is due to both reports being included within the same agenda and therefore the information was not available in time to update the Capital Programme. This was however rectified at the earliest opportunity through the identification of the "Deliverable Budget" at Qtr 1. The approval of the Business Plan has been brought forward to November each year and therefore this issue has not been replicated in 2022/23 budget setting.



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

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3	Recommendation	Where significant uncertainties exist within financial planning, then a scenario analysis should be included within the MTFP to give the range of potential impacts.
	Why/impact	Scenario analysis would assist in the understanding of financial risk within the MTFP assumptions.
	Summary findings	Due to uncertainties around the timing and impact of funding reforms, the December 2020 MTFP does not model potential reductions in business rate income over the four year period. There is an expectation from officers that transitional grants would mitigate any adverse impact of funding reform on the Council. The calculation of the minimum prudent level of GF reserves also includes an assessment for funding reductions. We note that the October 2021 MTFP does include a £0.5m reduction in business rates due to the business rate reset
	Management comment	Some scenario analysis is undertaken internally but not included within the MTFP report as per this recommendation. This will be broadened and included within the future reports.



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



4	Recommendation	The Council should include the actual inflation assumptions used in financial planning within the MTFP report.
	Why/impact	The key assumptions appendix within the MTFP would be strengthened if information on the actual inflation assumptions was provided with the sensitivity analysis.
	Summary findings	The December 2020 MTFP report provides a sensitivity analysis with the financial impact of a 1% or 5% change in inflation assumptions for staffing, business rates, and utilities. However, the actual assumptions used for these costs are not provided in the report.
	Management comment	It is acknowledged that the assumptions used for financial planning were not included within the 2020/21 MTFP report, although there was sensitivity analysis included that gave Members a good understanding of the cost implications. This was rectified in 2022/23 MTFP report.



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



5 Recommendation

The Council should ensure that realistic savings targets are agreed for inclusion within the MTFP which incorporate an element of headroom for if there is slippage to the plan. Savings targets should be separately identified and monitored using RAG ratings during the financial reporting cycle.

Why/impact

Balancing the budget without reducing services is becoming increasingly difficult and the Council needs to ensure a strategic approach to savings and resource allocation.

Summary findings

Budget reports presented to Cabinet as part of the 2021/22 budget setting process recognise that a strategic approach to identifying savings is required to balance the financial position.

The 2021/22 budget is not heavily reliant on achieving service savings to balance the overall financial position. The budget was balanced through measures announced in the finance settlement, reductions to employee and treasury costs, and one off measures such as delaying asset maintenance, releasing earmarked reserves and the use of New Homes Bonus.

Evidence of a strategic approach to identifying savings is provided through the October 2021 MTFP. This identified various budget options which formed the basis for discussions within the relevant Policy Development Groups for the 2022/23 budget. Policy Development Groups were not able to identify the full £0.5m savings target allocated to them. The 2022/23 budget was balanced though adjustments to capital financing costs, increases to business rate income, the release of earmarked reserves and the use of New Homes Bonus.

Management comment

The Council understands the benefits of clearly understanding its financial position and is therefore able to plan how it will mitigate its budget shortfall. Therefore, informed by the scenario planning, savings targets will be created and agreed with services. The budget monitor will report transparently where these planned savings have not been achieved.



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

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6	Recommendation	The Council should ensure that it complies with the revised 2003 Regulations when they are published by providing prudent MRP provision on capital loans to 3 Rivers Developments.
	Why/impact	The proposed revisions to the 2003 Regulations will clarify that MRP should be provided on capital loans.
	Summary findings	We reported in the Audit Findings Report 2020/21 that the Council are not charging minimum revenue provision (MRP) against the £10.2m of capital loans with 3 Rivers Developments. In our view prudent MRP must be determined with respect to the authority's total capital financing requirement including capital loans. The government has consulted on revisions to the Local Authorities (Capital Finance and Accounting) Regulations 2003 and proposes to clarify that MRP provision has to be made for capital loans.
	Management comment	The Council does, and will continue to, comply with the regulations.



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



7	Recommendation	The Treasury Management Strategy and Annual Review reports should contain the budget and outturn information where relevant, for interest income, interest costs and MRP.
	Why/impact	The financial implications of the Council's treasury activities should be fully disclosed in annual strategy and review reports. This will ensure a full understanding of the risk associated with these activities and allow performance to be measured.
	Summary findings	The Annual Treasury Management Review 2020/21 reports the interest income achieved for internally managed funds, property funds and 3 Rivers. The report does not compare this outturn position to the budget so that performance can be measured. The outturn for interest cost and MRP is not disclosed. We also note that the Treasury Management Strategy 2021/22 does not provide the budgets for MRP, interest income or interest cost. This information is however presented in the GF budget summary that accompanies the budget setting and outturn reports.
	Management comment	The comparison to budget is included within the monitoring reports, both for service and non-service areas. It is acknowledged that the Treasury reports, if viewed in isolation, could be improved by also including that information within them.



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

Governance



We considered how the Council:

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

COVID-19 arrangements

During the 2020/21 financial year the Council supported the community, businesses and the delivery of critical services through the pandemic, and adapted governance arrangements as required. Council and Committee meetings were held remotely throughout the year, allowing for public participation and for the democratic decision making process to continue. The majority of Council staff were required to work from home during the pandemic, while the Council furloughed over 100 officers and redeployed 27 to help vulnerable people through the community shielding hub and to assist with Covid-19 test and vaccination centres.

Regular incident management meetings were held from the start of the pandemic. These meetings monitored the latest Covid-19 position, the impact on the Council's workforce and the support provided to the local community and businesses.

During the year the Economy Policy Development Group received regular updates on the Council's economic response to Covid-19. These updates included the progress on delivering grants to support local businesses, reopening the high streets safely, and economic recovery action such as the Cullompton High Street Heritage Action Zone and the work of Team Devon implementing the Recovery Prospectus.

The Council distributed £27.9m of government funded business support grants during the year. The Audit Committee received updates from officers as to the progress in making the payments, the controls in operation and the risk of potential fraudulent payments. Processes were put in place to obtain sufficient information to confirm an application was eligible before payments were made. The Spotlight assurance system was used for prepayment checking and the National Fraud Initiative tool was used for post payment verification, in order to identify potential fraud. The Devon Audit Partnership also reviewed the system for processing Covid-19 business grants, giving a reasonable assurance opinion. The Council put in place adequate arrangements to prevent fraudulent payments, while ensuring that businesses received prompt financial support.

The Devon Audit Partnership adapted their audit approach in order to be able to provide an annual assurance opinion to the Council for 2020/21, with the focus on assurance mapping to understand risk and controls. The internal audit plan was revised to include specific areas of Covid-19 risk such as the award of business grants and reviewing the safety of staff operations.

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

Managing risk

The Council's Risk Management Policy is approved annually by the Audit Committee. During 2020/21 revised policies were approved in June 2020 and March 2021. The Council uses SPAR as the corporate performance and risk management system. A guide is available to officers that details the process for using the system and scoring risks to ensure a consistent approach is taken. The Council uses a scoring matrix which considers the impact and likelihood of risk, with scores of 15-25 indicating high risk. Risks that score 10 and above are considered key business risks and are reported to Members through the regular Performance and Risk Reports presented to Audit Committee, Cabinet, Scrutiny Committee and the Policy Development Groups throughout the year.

The risk registers reported to Members include a description of the risk, mitigating actions, and a RAG rated risk score derived from the severity and likelihood of the risk occurring. Risks are assigned to named officers and contain a narrative on the current position.

From our work we have not identified any significant areas of weakness in the Council's arrangements to manage and report risk. We have made an improvement recommendation that risks within the risk register should be mapped to corporate priorities to ensure that their potential impact on the corporate plan is understood and that only key risks are reported to Members.

Internal control

Internal audit is undertaken by the Devon Audit Partnership (DAP). Due to the impact of the pandemic on resources and working practices, and in order to be able to deliver an assurance opinion for 2020/21, DAP developed different practices such as remote testing and assurance mapping in order to build a view of the risk and control framework.

The Audit Committee approved the Internal Audit Charter and the Internal Audit Plan in June 2020. A revised plan was approved in January 2021 in order to align available resources to risk. Some audits were deferred, for example treasury management where previous controls were found to be good, and others were added, such as review of the Covid-19 business grants scheme, income compensation scheme and staff operations.

During the year the Audit Committee received regular progress reports from DAP which

include a summary of the work undertaken, performance against the plan and progress in implementing recommendations. The Annual Audit Report 2020/21 confirms that 89% of the revised audit plan was completed.

Despite the significant changes to business operations and ways of working due to the pandemic, internal audit were able to confirm through their audit reviews that most core controls continued to operate effectively. DAP provided a Reasonable Assurance audit opinion on the adequacy and effectiveness of the internal control framework in their Annual Audit Report. Limited assurance opinions were issued for partnership management, commercial rents and digitalisation and the Council should ensure that the recommendations agreed with internal audit are implemented over the agreed timescales.

From our work we have found no areas of significant weakness in the management and reporting on internal control.

Monitoring Standards

There is evidence of an appropriate culture within the Council to prevent and detect fraud and corruption, with the relevant policies in place and subject to regular review.

A revised Anti-Fraud and Corruption Policy and Strategy were approved during 2020/21 following the internal audit review the previous year, with the Strategy further developed to reduce the risk of fraud. A revised Whistleblowing Policy was approved in March 2021. The Scrutiny Committee receives six-monthly updates on whistleblowing activity within the Council, although there were no cases to report during 2020/21.

Codes of conduct are in place for both Members and officers and these include the policies relating to declarations of interest and gifts and hospitality.

Member declarations of interest are available on the Council's website. There were no declarations of gifts and hospitality made by Members during the year. We have identified that one officer declaration of interest and one receipt of a gift were recorded for 2020/21. It is acknowledged that the offer of gifts and hospitality were probably limited during the year due to the pandemic and periods of lockdown. The Council should ensure it continues to regularly remind both officers and Members of the requirement to declare interests and gifts

or hospitality through the weekly information sheets and newsletters.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer who both sit on the Council's leadership team. Through our review we are not aware of any instances where officers or elected Members have not complied with the necessary standards.

We have not identified any significant weaknesses with regard to the Council's arrangements for ensuring adherence to laws and regulations or ethical standards.

Budgetary control 2020/21

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

Budget monitoring reports were submitted quarterly during the year to Cabinet, which include a detailed analysis of budget variances for the General Fund and the Housing Revenue Account. The quarterly reports include detailed monitoring of the capital programme on a scheme by scheme basis with forecasts for slippage. Summary budget updates were provided to Cabinet during the year in addition to the formal quarterly monitoring.

As the financial year progressed the overall forecast outturn position improved as the costs of the pandemic and associated government funding became more certain. The Quarter One position was a forecast deficit of £1.5m, with a deficit of £0.09m forecast by Quarter Three and a final outturn deficit of £0.07m.

There was no requirement during the year to implement additional controls on expenditure.

The financial impact of the pandemic was monitored through the monthly Covid-19 returns that were submitted to the government. The monitoring process was facilitated by allocating pandemic related spend and grant income to a bespoke accounting code within the finance system.

The budget monitoring and outturn reports provide detailed information on budget variances. The reporting did not distinguish between recurring and non-recurring elements relating to the pandemic or other non-Covid19 related variances. The net costs of the pandemic were forecast in the Emergency Budget approved in October 2020 as £4.4m, with £0.4m non-Covid related pressures also identified. It was not clear at outturn, within the context of an annual deficit of £0.07m, what the cost of the pandemic was to the Council and how this would impact future years.

We have made an improvement recommendation that additional analysis should be provided in budget reports to distinguish between recurring and non-recurring variances that together make up the net revenue position. An example would be the on-going impact of the pandemic on future years.

We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring. Members are provided with regular and detailed information.



3 Rivers governance review

The 2019/20 value for money (VFM) conclusion was qualified in respect of the governance arrangements in place for the Council-owned company 3 Rivers Development Ltd. The Council commissioned external reports to assess the financial viability of the company and its governance arrangements, and subsequently agreed a 33 point action plan to address identified weaknesses. When the 2019/20 VFM conclusion was given there was still much work required to complete the recommendations within the action plan. The critical recommendation identified was that the company suspends site purchases and commissioning of work where construction has not started, until the appointment of new directors and the approval of a revised business plan.

Internal audit had also made a significant number of recommendations as a result of their audit work and had given an "improvements required" assurance opinion.

As part of our 2020/21 VFM work we have reviewed the progress made in implementing the 33 recommendations within the action plan. We have considered the reports submitted to Cabinet and improvements in governance arrangements during the period June 2020, when Cabinet received the externally commissioned reports, to June 2021, when Cabinet approved the revised shareholder agreement.

There is evidence of significant improvements made to governance arrangements and progress in implementing the agreed action plan, as summarised below:

- monthly monitoring reports submitted to Cabinet, including key performance indicators,
- a new Director of Finance and Non-Executive Director with sector experience were appointed in December 2020,
- 2 Cabinet ambassadors have been appointed to oversee the activities of the company,
- loan agreements have been redrafted and security for the Council's investment provided,
- a revised 5 year business plan was approved in February 2021,
- developments with a build cost in excess of £1m require separate Cabinet approval,
- Cabinet approved the revised shareholder agreement in June 2021.

The Council commissioned a report from the solicitors who carried out the original

governance review. They were able to confirm, in their report of November 2021, that all 33 recommendations from the action plan had been implemented.

Devon Audit Partnership conducted a follow up audit in February 2021 of the progress made on the 35 recommendations agreed as a result of their governance review. At that point they could confirm 32 recommendations had been implemented, leaving the only area of limited assurance relating to performance monitoring measured through key performance indicators. A subsequent update after reviewing the monthly performance reports confirmed that this action was complete and reasonable assurance could be given. An outstanding recommendation was identified for the development of the 3 Rivers risk register into an effective management tool by improving risk descriptions and including risk scores, risk owners and target dates. We have made an improvement recommendation that the company should address these weaknesses identified by internal audit.

We have made a further improvement recommendation that the Council should continue to adequately monitor the financial performance of the company and its progress in achieving the target for breakeven as set out in the business plan.

We have already reported through our financial sustainability work that there is consistency between the company's business plan and the Council's capital programme. However, we noted that the revenue budget for interest receivable differs to the company's estimate of interest payable and there is no reconciliation of the commercial capital financing requirement in the Treasury Management Strategy. An improvement recommendation has been raised that these areas should be reviewed to ensure consistency between the Council's budget and the company's business plan

As part of the Audit Findings Report 2020/21 we identified that the Council does not provide for minimum revenue provision (MRP) on commercial loans. In our view prudent MRP must include provision for capital loans. We have raised an improvement recommendation that the Council should ensure it complies with the revised Local Authorities (Capital Finance and Accounting) Regulations 2003 once they are published.

The Council can demonstrate that significant improvements have been made to the governance arrangements of 3 Rivers Developments Ltd and we have found no risk of significant weakness. Improvement recommendations have been identified to further strengthen governance and ensure compliance with capital finance regulations.



8	Recommendation	Risks within the Council's Corporate risk register should be mapped to corporate priorities.
	Why/impact	Mapping risks to corporate priorities would ensure that their potential impact on the corporate plan is understood and only key risks are reported to Members.
	Summary findings	The risk registers reported to Members include a description of the risk, mitigating actions, and a RAG rated risk score derived from the severity and likelihood of the risk occurring. Risks are assigned to named officers and contain a narrative on the current position. Risks are not mapped to corporate priorities.
	Management comment	It is acknowledged that the mapping of risks to the Corporate Plan could be clearer and will be in the future.



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



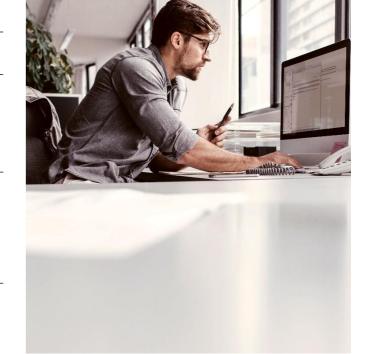
9	Recommendation	Budget reports should distinguish between recurring and non-recurring variances that together
		make up the net revenue position. An example would be the on-going impact of the pandemic on
		future years.

Why/impact It is not clear within the context of the annual deficit for 2020/21 of £0.07m, what the net cost of the pandemic was and how this would impact on future income and expenditure streams.

Summary findings The budget monitoring and outturn reports provide detailed information on budget variances. The reporting did not distinguish between recurring and non-recurring elements relating to the pandemic or other non-Covid19 related variances. The net costs of the pandemic were forecast in the Emergency Budget approved in October 2020 as £4.4m, with £0.4m non-Covid related pressures also identified. It was not clear at outturn what the cost of the pandemic was to the Council and how this would impact future years.

Management comment The monitoring of financial reporting is provided to Members on a monthly basis. Key variances are included to transparently highlight to Members where the Council is experiencing any movement away from the planned budget, good or bad. Therefore, although not separately shown within the report or appendix, Members are clearly informed where extraordinary costs

have been incurred.



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



Recommendation

The company should address the weaknesses identified by internal audit in relation to the 3 Rivers risk register.

Why/impact

Improving risk descriptions, including risk scores, risk owners and target dates will make the company risk register a more effective management tool.

Summary findings Devon Audit Partnership conducted a follow up audit in February 2021 of the progress made on the 35 recommendations that they has made as a result of their governance review. At that point they could confirm 32 recommendations had been implemented, leaving the only area of limited assurance relating to performance monitoring measured through key performance indicators. A subsequent update after reviewing the monthly performance reports confirmed that this action was complete and reasonable assurance could be given. The only outstanding recommendation was identified as the development of the 3 Rivers risk register into an effective management tool by improving risk descriptions and including risk scores, risk owners and target dates.

Management comment

The Risk Register for 3 Rivers is not directly under the control of the Council given it is an arm's length company. However, the Council recognises that there is room for improvement in the reporting of those risks to Members (as the shareholder) that can help clarify the degree and quantum on the risk. Therefore, this issue will be raised with the company.



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



11	Recommendation	The Council should continue to adequately monitor the financial performance of 3 Rivers and its progress in achieving the target for breakeven as set out in the business plan.
	Why/impact	The company is forecasting breakeven in 2023 and the Council should continue to monitor performance against this key financial objective.
	Summary findings	There is evidence of significant improvements made to governance arrangements and progress in implementing the agreed action plan for 3 Rivers. This includes the regular monitoring by Cabinet of key performance indicators relating to the profitability of building schemes compared to the business plan.
	Management comment	The Council will continue to report financial performance of 3 Rivers as it has been doing for the last year.



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

Improving economy, efficiency and effectiveness



We considered how the Council:

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

Performance management

The Council's Corporate Plan was approved in February 2020 and sets out the four key priority areas of homes, environment, community and economy. The Council has signed the Devon Climate Declaration and sustainability is a key feature within all four priority areas.

Performance monitoring reports are presented quarterly to Cabinet, Scrutiny Committee and the Audit Committee. Policy Development Groups also receive regular performance reports tailored to their theme area. The reporting includes RAG rated key performance indicators that are aligned to the relevant corporate priority, with the previous year's performance, the target performance and actual performance provided. The responsible manager is identified and can provide commentary on the level of performance. Trends in performance and areas that are below target are easily identifiable from the indicators, which are supported by a covering report that includes a narrative for key trends in performance.

The Internal Audit Annual Report 2020/21 noted that in several audit reviews performance indicators were not in place or did not support effective monitoring and management of operational performance, for example social media, payroll and parking operations. The Council should review areas were operational performance indicators can be further developed.

Performance outturn for 2020/21 was considered by Cabinet in July 2021. The impact of the pandemic through absences, social distancing and lockdown affected performance in some areas. For example, residual waste was above the 362kg per household target at 379.8kg, with periods of lockdown contributing to a rise in residential waste for disposal. Targets for housing delivery were not met, with 335 new homes provided against the target of 393. The construction industry ceased to operate during the initial periods of lockdown. The performance indicators for planning were all on target or better, and the collection rates for council tax and business rates, although slightly below target, were good considering the context of the pandemic.

The Council has a Data Quality Policy that recognises that good data is integral to performance management and so needs to be accurate, timely and complete. The policy sets out the relevant roles and responsibilities and the need for adequate controls over data input and verification.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness. We have not identified any improvement recommendations from our work.

Benchmarking

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

We have identified that the Council does undertake performance benchmarking for some key service areas. The Council uses Housemark, the national benchmarking tool for housing services , and publishes detailed performance data online through the annual Housing Service Performance Report. The Council also uses Waste Data Flow which provides local authority data on waste performance and this informs the Devon Waste Strategy. The Council subscribes to LG Inform, which allows managers to access national data from government returns, and can be used for service benchmarking.

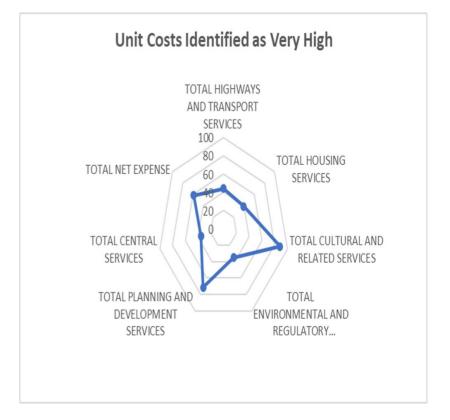
The benchmarking that we undertook using our management tool 'CFO Insights' compared the unit costs for a range of services and identified areas where the unit costs were very high in comparison to other district councils. These are summarised in the graph opposite have been discussed with the finance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

While the charts opposite are only able to provide an indication of where costs are high, we consider that the Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved. Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign. This will be particularly relevant as the Council seeks to implement a more strategic approach to generating savings to balance the budget.

We have therefore made an improvement recommendation in relation to this.

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

The data is based on the 2019/20 Revenue Outturn submissions to the government.



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Significant partnerships

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

Mid Devon and North Devon District Councils together form the Building Control Partnership. A Joint Committee oversees the delivery of the service. Partnership performance is reported to the Planning Committee, with Scrutiny Committee also considering a performance update report in December 2020. For 2020/21 application response times exceeded their target.

Cabinet approved the draft Resource and Waste Management Strategy for Devon and Torbay in February 2021. The strategy was developed by the Devon Authorities Strategic Waste Committee and includes key targets relating to achieving net zero carbon, increasing recycling and reducing waste.

The Council has adopted the Devon Districts Procurement Strategy. The joint strategy aims to embed a corporate procurement approach and promote collaboration opportunities. The strategy includes an action plan that identifies four priority areas of contract management, sustainable procurement, engaging with local business and behaving commercially. The Devon District Procurement Group reviews each council's progress against the plan.

Team Devon, a partnership comprising representatives from business, education and local authorities, launched the Covid-19 Economy and Business Recovery Prospectus in July 2020. This sets out the vision for Devon's economic recovery and forms the basis for lobbying the government for additional funding. The Economy Policy Development Group received regular updates during the year on the Covid-19 economic response, including the work of Team Devon.

The Safeguarding Policy was reviewed during the year and presented to Cabinet in August 2020. The Council's policies and procedures reflect the Devon Children and Families Partnership and Safeguarding Adults Partnership to ensure they represent best practice. The Council has a Corporate Safeguarding Officer who is responsible for implementing the policy and chairs the Safeguarding Representatives Group.

Scrutiny Committee and Community Policy Development Group receive an annual report on the activities of the Community Safety Partnership which includes priority areas, activities and outcomes for the year with a detailed action plan. The performance against the annual Community Safety action plan is reported through performance indicators reported to Cabinet, with all 12 actions completed for 2020/21.

Internal audit reviewed partnership governance arrangements during 2020/21, with a limited assurance opinion being provided. Identified weaknesses include the absence of a strategy that sets out direction and control requirements to ensure partnerships have a consistent approach. There is no central register to monitor partnerships to ensure that the Council is aware of dependencies and risk. We could not find reference to any actions relating to these weaknesses in the Council's Annual Governance Statement, and so have raised an improvement recommendation that the Council should consider the need for a partnership register and strategy.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners, but we have raised an improvement recommendation regarding an overarching strategy and register for partnership arrangements.



Improving economy, efficiency and effectiveness

12	Recommendation	The Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved.
	Why/impact	Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign. This will be particularly relevant as the Council seeks to implement a more strategic approach to generating savings to balance the budget.
	Summary findings	The Council does undertake performance benchmarking for some key service areas, for example through Housemark, Waste Data Flow and LG Inform. There is however no formal corporate benchmarking of costs.
	Management comment	Benchmarking is used by the Council. However it is acknowledged that the use of benchmarking could be broadened and can be used more to challenge and inform the budget setting process.



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



Improving economy, efficiency and effectiveness

13	3 Recommendation The Council should consider the need for a partnership register and strategy.	
	Why/impact	A partnership register would help ensure that the Council is aware or risks and dependencies that could impact on the delivery of corporate objectives. A partnership strategy would ensure partnerships are managed consistently within the Council.
	Summary findings	Internal audit reviewed partnership governance arrangements during 2020/21, with a limited assurance opinion being provided. Identified weaknesses include the absence of a strategy that sets out direction and control requirements to ensure partnerships have a consistent approach. There is no central register to monitor partnerships to ensure that the Council is aware of dependencies and risk. We could not find reference to any actions relating to these weaknesses in the Council's Annual Governance Statement.
	Management comment	The services provided by the Council remain largely insourced and therefore there are limited true partnership arrangements in place. Where they do exist, for example Building Control, there are policies and procedures in place to ensure robust governance. The Council will monitor the situation and, as and when it is appropriate to do so, will introduce a partnership strategy and register.



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

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 1 December 2021.

Audit Findings Report

More detail can be found in our Audit Findings Report, which was published and reported to the Council's Audit Committee on 16 November 2021.

Whole of Government Accounts

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

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

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it. However, further requests for information were required in relation to the subsidiary company to support the group accounts.

Issues arising from the accounts:

- Our work identified a material adjustment required to the balance sheet and comprehensive income and expenditure account in relation to the advance contribution payment to the pension fund,
- We identified other non-material disclosure adjustments,
- We have made a recommendation that statutory audits are undertaken for all group companies.

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

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



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

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

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

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

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

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

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

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



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

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness at the planning stage, see pages 6 to 19 for more details.	No additional procedures undertaken. Financial sustainability was assessed through the standard procedures including reviewing the budget setting process and medium term financial plan.	No significant weaknesses identified	Appropriate arrangements in place, seven improvement recommendations raised.
Governance was identified as a potential significant weakness at the planning stage, specifically in relation to 3 Rivers, see pages 20 to 27 for more details.	The progress in implementing the 33 point action plan that was agreed as a result of the external reviews of 3 Rivers was reviewed.	No significant weaknesses identified	Appropriate arrangements in place, four improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 28 to 32 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, two improvement recommendations raised.

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 13 – 19 Pages 24 – 27 Pages 31 - 32

Appendix D – Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made an application to the Courts.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

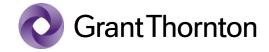
- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for a judicial review.



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