

Auditor's Annual Report

Mid Devon District Council

For the year ended 31 March 2024



Date: 22 November 2024

Mid Devon District Council
Phoenix House
Phoenix Lane
Tiverton
EX16 6PP

Dear Sirs and Madams

Mid Devon District Council – Auditor's Annual Report

We are pleased to attach our draft Auditor's Annual Report. This report summarises our audit conclusions and highlights the key findings arising from our value for money work.

We have initially discussed the contents of our report with management and have incorporated their comments where relevant.

This report is intended to be solely for the information and use of management and those charged with governance of the Council.

We would like to take this opportunity to thank the Council's officers for the co-operation and assistance afforded to us during the course of the audit.

Kind regards

Yours faithfully



Bishop Fleming LLP.

BISHOP FLEMING LLP

Contents

1. Introduction.....	2
2. Executive summary.....	3
3. Audit of the financial statements.....	4
4. Value for Money.....	5
5. Financial sustainability.....	6
6. Governance.....	8
7. Improving efficiency, economy and effectiveness.....	10
8. Recommendations.....	12

Draft

1. Introduction

Our Auditor's Annual Report (AAR) summarises the work that we completed for Mid Devon District Council for the year ended 31 March 2024.

The Council is responsible for keeping proper accounts and proper records in relation to the accounts and for maintaining an appropriate system of internal control. The Council is responsible for the preparation of annual accounts for each financial year. Such accounts must present a true and fair view and comply with the requirements of enactments that apply to them.

The Council is also responsible putting in place appropriate arrangements to secure the economy, efficiency and effectiveness in its use of resources and to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives whilst safeguarding and securing value for money from the public funds at their disposal.

The scope of our work is set in accordance with the National Audit Office's Code of Audit Practice (The Code) and the International Standards on Auditing (ISAs) (UK). Our work is planned to provide a focused and robust audit. We are responsible for and are required to provide an independent opinion as to whether the financial statements:

- give a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We are also required to report to the Council by exception the following matters, if:

- the Annual Governance Statement does not comply with "Delivering Good Governance in Local Government: Framework 2016 Edition" published by CIPFA/SOLACE; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

In addition, we are also responsible for reviewing the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report on the Council's arrangements under three specified reporting criteria:

- Financial sustainability – how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance – how the Council ensures it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

We carried out our work in accordance with our External Audit Plan that we issued to the Council in March 2024.

2. Executive summary

Results from the audit of the financial statements

We have substantially completed our audit of the financial statements and anticipate issuing an unmodified audit on finalisation of our completion procedures.

On finalisation of the external audit, we will also complete the component auditor procedures, in line with the National Audit Office group auditor instructions for the work required on the Whole of Government Accounts return.

We have issued this report as draft as these procedures have not been finalised. We will issue a final version to confirm when both of these matters have been resolved.

See section 3 for more details.




Results on our work on other matters

We completed our review of other matters reported in the statement of accounts as part of our audit approach. There were no issues to report.




Results from our work on VFM arrangements

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 for the year ended 31 March 2024.

Our conclusions are summarised below. See sections 4-8 for more details.

Financial sustainability		No significant weaknesses in the Council's arrangements identified but one recommendation for improvement made.
Governance		Significant weakness in the Council's arrangements identified and recommendations made.
Improving economy, efficiency and effectiveness		Significant weakness in the Council's arrangements identified and recommendations made.

Key:

	No significant weaknesses in arrangements identified and no recommendations made
	No significant weaknesses in arrangements identified but recommendations made
	Significant weaknesses in arrangements identified and recommendations made

3. Audit of the financial statements

Audit opinion on the financial statements

The scope of our work is set in accordance with the National Audit Office's Code of Audit Practice (The Code) and the International Standards on Auditing (ISAs) (UK). We are required to provide an independent opinion as to whether the financial statements:

- give a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014..

Our audit is largely complete, however, is subject to the resolution of certain outstanding queries. Subject to the satisfactory finalisation of these points, we anticipate issuing an unmodified audit report.

Key issues arising from the accounts audit

The key risk areas we focussed on are management override of controls, the valuation of land and buildings, the valuation of council dwellings and the valuation of the pension fund net liability.

Other matters

We are required to report to the Council by exception the following matters, if:

- the Annual Governance Statement does not comply with "Delivering Good Governance in Local Government: Framework 2016 Edition" published by CIPFA/SOLACE; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We concluded that there were no matters to bring to the Council's attention in respect of these matters.

More detailed findings can be found in our Audit Completion Report which was reported to the Audit Committee on 3 December 2024.

4. Value for Money

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 for the year ended 31 March 2024.

The Code requires us to report our commentary on the Council's arrangements under three specified reporting criteria:

- Financial sustainability – how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance – how the Council ensures it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The NAO has issued guidance for auditors to report against each of the three specified reporting criteria. The guidance also includes a number of further areas for review within each criteria for the auditor to assess those arrangements.

Our risk assessment identified the following potential risks of significant weakness:

- Governance – your predecessor auditor identified a significant weakness in arrangements in relation to the conduct of the debate around the business plan for 3 Rivers Development Limited and the subsequent impact on setting the 2023/24 budget; and
- Improving economy, efficiency and effectiveness – your predecessor auditor identified a significant weakness in arrangements for managing 3 Rivers Development Limited

We asked management to complete an evidenced self-assessment of the Council's arrangements. We then reviewed the evidence provided and carried out follow up work as appropriate to consider whether there are any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our commentary on the Council's arrangements in each of these three areas is set out in sections 5, 6 and 7 of the report. Our recommendations for improvement are included in section 8.

5. Financial sustainability

We considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including how it:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures that 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; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Overview and 2023/24 outturn

The Council reported a deficit to the Cabinet on 4 June 2024 of £635k on the general fund in its 2023/24 outturn report on the general fund. This deficit was met from the New Homes Bonus reserve. There had been some significant financial challenges in the year, having identified the need to achieve savings of £1.4m and anticipating the need to draw on reserves when setting the budget. The Council also incurred one-off costs of £1.5m in the year when delivering the soft close of 3 Rivers Development Limited. The delivery of additional savings and increased income to limit the level of reserves needed to be drawn on is seen as a positive achievement in light of the challenges in the year, where the worst-case scenario was general fund reserves falling below the £2m recommended level.

The Housing Revenue Account reported a surplus of £393k, which was transferred to the ring-fenced HRA earmarked reserves.

Financial planning and monitoring

The Council keeps its financial forecast position under review throughout the year with quarterly monitoring reports to the Cabinet covering general fund and HRA revenue and capital performance. The monitoring focusses on significant budget variances and sets out any remedial actions where necessary.

The Medium-Term Financial Plan (MTFP) was presented to the Cabinet on 7 March 2023 and identified deficits of £1,832k for 2024/25, £1,532k for 2025/26, £450k in 2026/27 and £132k in 2027/28. The cumulative budget gap over the four years is £3.9m. These deficits increased because of assumed funding reforms to take effect with funding not increasing as costs continue to rise. Our review indicated that the assumptions and estimates included in the MTFP appear prudent.

When the 2024/25 budget was set in February 2024, the updated MTFP budget gaps were £1,196k in 2025/26, £1,633k in 2026/27, £655k in 2027/28 and £511k in 2028/29, a cumulative budget gap of £4m.

Currently, the Council has sufficient reserves to address any potential future deficits, and they continue to develop options for closing the future budget gaps.

Achieving efficiency savings

The Council's 2023/24 Budget report does not set out a specific plan for savings schemes to be achieved by the Council and savings plans are not specifically monitored by the Council. The quarterly monitoring reports refer to savings that are being achieved during the year but there is no tracking of savings against a target for the year.

The Council reported in its Outturn report that in-year savings and additional income of c£1.9m were delivered in 2023/24, with this being the result of concerted efforts by management due to the budgetary pressures being experienced in the year. This represents a positive result from where the Council was earlier in the year, even though it did still need to draw on £635k of reserves to fund the overall deficit. The Council's arrangements could be improved by setting out a savings plan,

with specific schemes, which it can then monitor its performance against throughout the year. We have included a recommendation in respect of this.

2024/25 financial planning

The budget setting process starts with the budget holders at service level reviewing their performance in the previous financial year. Budget holders work closely with the finance team to create the budgets. A balanced 2024/25 budget was presented to the Cabinet on 6 February 2024 and approved by the Council on 21 February 2024.

The financial planning assumptions feeding into the 2024/25 budget are based on assumptions captured by the MTFP. Considerations of these risks appear to be appropriately scrutinised as they are monitored through the Policy Development Groups and are captured within the financial planning process.

We also noted that the Council aligns its financial plans with other internal plans such as its workforce (establishment reporting) and capital plans.

Based on the work carried out, we are satisfied that there are no significant weaknesses in the Council's financial sustainability arrangements. We have made a recommendation for an area of improvement at section 8.

6. Governance

We considered how the Council ensures that it makes informed decisions and properly manages its risks, including how it:

- monitors and assesses risk and how the body 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; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; 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; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services.

Risk management

The Council have a Risk Management Strategy in place which is subject to an annual review by the Audit Committee. This sets out the process of identifying and reporting risks, and the responses and monitoring processes which will be put in place.

Corporate risk responsibility is delegated through the Strategy to the Audit Committee. Risk reports are received by the Committee quarterly where the full reporting details risk scoring and monitoring updates. Each risk is scored on the potential impacts and likelihood of occurrence and placed on the risk matrix where it is given a RAG rating, documented alongside the mitigations required and responsible individuals. From our review of the Council's risk reporting, we are content that there are adequate arrangements in place to monitor and raise risks, with new risks being identified throughout the year.

The Council does not include its corporate objectives or key performance indicators alongside the reporting of risks. As a result, it cannot be identified when specific service delivery is impacted by individual risks. We have raised a recommendation for the Council to clearly identify links between risk management and service delivery so that there is awareness of the implications on each risk area.

The Council's governance structure is made up of a full Council which is supported by a Cabinet and a number of Committees who have delegated responsibility for their own portfolio areas, each of which is chaired by a Member of the Council.

Internal control

The Council's Internal Audit function is provided by Devon Audit Partnership, who have a representative at each Audit Committee meetings to present any findings. The Audit Committee approves the annual Internal Audit Plan and is provided with a progress report on the delivery of the plan at each meeting.

Through our review of the Internal Audit reports along with the Audit Committee minutes and papers, we have not identified any significant gaps in the assurance the Council receives over matters in the work programme.

The Council have adequate arrangements in place for the prevention and detection of fraud through the design and implementation of appropriate policies and procedures.

The Audit Committee has a key role to play in ensuring the overall effectiveness of internal controls. The Committee discharges this function appropriately by adhering to its terms of reference and challenging officers in relation to internal and external audit findings.

Our audit procedures identified that the Council has not been setting the rents for its housing tenants in line with the formula rent requirements set out by the Government. This is an historic issue, going back a number of years, but the Council's arrangements for setting the rent each year had not identified this issue. The Council is working to determine the scale of the issue and next steps, which will include a provision in the accounts for where rents have been overpaid by tenants. We have concluded that this is a significant weakness in the Council's governance arrangements.

Budget setting and budgetary control

The Council's budget is prepared and set through the Leadership Team meetings, in consultation with budget holders and the wider finance team. The Council monitors trends and factors these appropriately into their strategy. They also appropriately consider a number of different proposals throughout the lifetime of the Medium-Term Financial Plan to reduce cost pressures.

Policy Development Groups are in place throughout the Council in order to monitor and approve budget proposals in their areas of responsibility. When they meet, medium term financial planning is regularly on the agenda to ensure they are monitoring progress within their areas.

Final budget proposals are considered by the full Council meetings each year where they are voted on accordingly.

The Council provides accurate and timely financial monitoring reports to budget holders, with a breakdown of total expenditure alongside appropriate variance analysis focussing on significant budget variances (+/- £20k), including any remedial action where necessary. Financial reporting is clear and includes sufficient qualitative detail to support decision making.

Decision making

We are satisfied that appropriate arrangements are in place to ensure that all relevant information is provided to decision makers before decisions are made and that arrangements are in place for challenge of any decisions before they are made.

The Council has a partnership arrangement in place with the North Devon District Council to deliver building control services, discussed further within the 'Improving efficiency, economy and effectiveness' section of this report. This is monitored through a Joint Committee arrangement with membership from both Council's officers and members. There are documented agreements in place which provide a strong governance framework for the Joint Committee to perform its functions.

There is an appropriate culture set by senior officers, driven by the Council's constitution and the Officer Code of Conduct. These set out the expectations for the behaviour of officers and promotes best practice, including the requirements to follow Nolan's Seven Principles of Public Life.

Ensuring appropriate standards

We have been informed that there have been no instances of significant non-compliance with laws and regulations within the year. Throughout our review, we have not identified anything that has contradicted this.

The Council's review of the Treasury Management Strategy evidenced that they were compliant with the CIPFA Treasury Management Code and MHCLG Guidance on Local Government Investments. There is no evidence from our work indicating any non-compliance with capital or other statutory requirements.

The Officer Code of Conduct sets out the required processes for compliance and reporting any gifts and hospitality to the Council's Monitoring Officer. The Council do not hold a central register for officers or members declarations. They are received on individual forms, rather than documented centrally. A recommendation for improvement has been raised in relation to the Council's procedures for reviewing compliance with the policy.

Elected Members declarations of interest are publicly available on the page with each member's contact details. The declarations of interest published are made in line with the relevant regulations and the LGA model Code of Conduct expectations.

Prior to and during all meetings, there is an opportunity for members to declare an interest in the items on the agenda. Any declarations made at meetings are within the published minutes of each meeting. The Officer Code of Conduct clearly identifies that officers are required to make formal declarations where they have pecuniary interest. All declarations are to be made to the Monitoring Officer.

From our communications with the Council's Monitoring Officer, there have not been any instances where declarations have not been made and subsequently been identified and had impacts to the Council, including reputational damage

Based on the work carried out, we have identified a significant weakness in arrangements, that the Council's HRA rent setting procedures had not identified that the rents were not being set in accordance with the required formula rent.

We have made recommendations for areas of improvement at section 8.

7. Improving efficiency, economy and effectiveness

We considered how the Council uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council 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; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

Assessing performance and evaluating service delivery

The Council produces quarterly performance monitoring reports to the Cabinet meetings with a detailed assessment of performance against key indicators. The reporting monitors the current position and performance trends across the year. However, the performance reporting is not presented through a single report for the whole Council. We have raised a recommendation for the Council to develop reporting mechanisms which provide members with a clear overview of all performance indicators.

The Council utilises Local Government Association tools to undertake benchmarking across similar authorities, including being members of the 'Peer Challenge' scheme whereby a range of independent experienced Members and officers from the accredited pool of peers review the Council's corporate performance. This has resulted in a follow up review to consider the implementation of the action plan. Additionally, the Council use LG Inform and CIPFA to provide key benchmarking information alongside their own information such as the Resident's Survey 2023.

There is evidence that the Council seeks to deliver savings and not place unnecessary cost pressures on residents. This is clear through their reviews of the 'Bin It 123' scheme whereby plans to implement changes to recycling services were delayed so that due attention could be given to the cost implications of such a change.

The Audit Committee receive recommendations from Internal Audit which is provided by the Devon Audit Partnership. This reporting includes tracking of the recommendations made by Internal Audit, whether the recommendations have been implemented or whether the actions are overdue. For overdue recommendations rated medium or higher, detailed reporting is provided to the Committee with comments from the relevant manager to understand the status of the recommendation.

Partnership working

The Council have a formal partnership arrangement in place with North Devon District Council in relation to building control. This provides a service to residents to make sure that projects are getting building regulations approval where planning permission is not required.

There is a Building Control Joint Committee which has been formed between the Councils and has membership from across both Council's officers and members. There are documented agreements in place in relation to the Joint Committee between the two Councils.

The Council use a public facing portal, 'Let's Talk Mid Devon' to consult with members of the community on issues which arise throughout the year and their annual resident's survey.

The predecessor auditor in 2022/23 reported that the Council did not exercise its shareholder role effectively in respect of 3 Rivers Developments Limited, contributing to the failure of its arm's length company and a significant financial loss. The Council has been taking action to address the issues identified with the implementation of the plan to close down 3 Rivers Developments Limited during the financial year, which had been substantially completed by the year end. Due to the timing of the 2022/23 recommendation and the actions taken by the Council we have concluded that the significant weakness in the Council's arrangements for the 3Es in respect of 3 Rivers Developments Limited still applied during the 2023/24 financial year.

Commissioning and procuring services

The Council have a procurement strategy in place covering 2023-24 to 2027-28, which has been prepared using national guidance from the Local Government Association (LGA). The procurement strategy clearly identifies the responsibilities of

individual officers to uphold the principles set out within the LGA guidance. We have not identified, and have not been made aware, of any instances of the Council failing to operate a fair procurement exercise on significant contracts.

The Cabinet receive specific reporting on tendering of major contracts for approval. This has been evidenced through the link where tendering of both the HRA property cleaning services and energy services was considered.

In relation to the repeated commission from previous service partners, we have not identified that the Council have commissioned services without due regard. We have also not identified any unexplained use of consultants or interim staff throughout the year.

Based on the work carried out, which included follow-up of prior year issues, we have concluded that the significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness noted in the 2022/23 Auditor's Annual Report remained a significant weakness in 2023/24. We have made recommendations for areas of improvement at section 8.

Draft

8. Recommendations

KEY:








Recommendations that refer to issues that have resulted in a significant weakness in the Council's arrangements.



Recommendations that should improve the arrangements in place at the Council but are not as a result of identifying a significant weakness.


Current Year Issues

Social rents	
	
<p><u>Governance</u></p> <p>Our audit procedures identified that the Council has not been setting the rents for its housing tenants in line with the formula rent requirements set out by the Government. This is an historic issue, going back a number of years, but the Council's arrangements for setting the rent each year had not identified this issue.</p>	<p><u>Recommendation</u></p> <p>The Council must complete its work to identify and agree the scope of the issue and take the necessary rectification actions.</p> <p><u>Management comment</u></p> <p>The Council recognise the importance of this work and are actively addressing the issue as swiftly as possible in conjunction with the Regulator, auditor and legal advisors</p>
Savings plans	
	
<p><u>Financial sustainability</u></p> <p>The Council does not set specific savings plans as part of the budget process. The Council needs to achieve savings to bridge the future budget projected in the Medium-Term Financial Plan and having agreed savings plans would help to support this process.</p>	<p><u>Recommendation</u></p> <p>The Council should agree a savings plan as part of the budget setting, with specific schemes. This will enable it to track performance against the savings target throughout the year.</p> <p><u>Management comment</u></p> <p>The Council has produced a savings plan for the 2025/26 budget setting process and will look to continue this approach in future years.</p>



Mapping Risks to Corporate Objectives	
	
<p><u>Governance</u></p> <p>The strategic risk register does not map the individual risks to specific corporate objectives or KPIs of the Council.</p>	<p><u>Recommendation</u></p> <p>The Council should seek to map its risks to its corporate objectives so that it can be identified which areas of service delivery are impacted by each risk.</p> <p><u>Management comment</u></p> <p>This recommendation will be considered.</p>
Gifts and Hospitality Register	
	
<p><u>Governance</u></p> <p>The Council does not hold a central register of gifts and hospitality. This means that all declarations are received and monitored through individual forms. As a result, this could risk the teams missing certain declarations and not reporting correctly.</p>	<p><u>Recommendation</u></p> <p>The Council should implement a central gifts and hospitality register for all officers and members, made available to the public where required.</p> <p><u>Management comment</u></p> <p>This recommendation will be considered.</p>
Performance Reporting Overview	
	
<p><u>Improving economy, efficiency and effectiveness</u></p> <p>The Council issue quarterly performance reporting to the Cabinet.</p> <p>There are five separate detailed performance reports provided with an overview provided.</p> <p>There is no summary of all performance metrics in one document. Members are required to review each report individually to have a clear picture of the status across all performance indicators.</p>	<p><u>Recommendation</u></p> <p>The Council should improve its performance reporting to the Cabinet meetings to provide a clear overview report of all performance indicators which align to the Council's Plan.</p> <p><u>Management comment</u></p> <p>Cabinet receive a quarterly performance report. This includes all performance indicators that form part of the Corporate Plan. This report is also reviewed twice per year by Scrutiny, and Corporate Plan indicators are further reviewed quarterly by the relevant Policy Development Group.</p>

Prior Year Issues reported by the predecessor auditor – Ongoing

Key recommendations (Significant weaknesses)

3 Rivers – Shareholder role	
	
<p><u>Improving economy, efficiency and effectiveness</u></p> <p>The Council did not exercise its shareholder role effectively, contributing to the failure of its arm's length company and a significant financial loss. At the time of compiling this report, however, the exact scale of this loss is not yet clear but it was expected to be significant.</p>	<p><u>Recommendation</u></p> <p>The Council needs to ensure it follows an action plan with a clear timeline and allocation of responsibilities due the Company's closure, and to work effectively to ensure the closure is conducted in a way that minimises its financial loss. The Council should also ensure its decisions are based on high quality expert advice as necessary.</p> <p>When working through this or any other significant partnerships, the Council should ensure both members and officers uphold effective political and management oversight of key partnerships and commercial entities. It must ensure it maintains a clear focus on the Council's objectives, ensures high quality reporting on performance and risk to inform key decisions, and acts promptly on information and significant changes of circumstances, that challenge the basis for establishing the partnership, supported by a clear exit strategy where necessary.</p> <p><u>2022/23 Management comment</u></p> <p>Excluding 3Rivers, the council has no other significant partnerships. In respect of 3Rivers, a clear plan is in place and being followed that will ensure the soft closure of the company.</p> <p>3Rivers financial losses clearly need to be reconciled against a backdrop of:</p> <ul style="list-style-type: none"> Cost of Living Crisis Covid-19 (material and contract availability and prices) A challenging political environment Planning Committee decisions Major contractor failure Government geographical restrictions <p><u>2023/24 Follow up</u></p> <p>Due to the timing of the 2022/23 recommendation and the action being taken by the Council in closing down the Company we consider that there remained a significant weakness during the 2023/24 year. However, the Council has taken appropriate actions during the year to resolve this issue as the Company has now been struck off and the Council has no similar arrangements.</p>

Improvement recommendations

Medium term financial planning	
 <p>Financial sustainability</p> <p>We have previously recommended that the Council develop a more strategic approach to developing and reporting on savings proposals. More systematic monitoring of savings proposals, targets and progress would enable members to routinely track progress on key savings proposals. Some Councils set out such plans on a multi-year basis, recognising that invest-to-save activities, for example, may take more than one year to deliver a net saving.</p>	<p>Recommendation</p> <p>To support medium term financial planning the Council should:</p> <ul style="list-style-type: none"> • set out a medium-term programme showing how it will close its forecast medium-term gaps in its financial plans, including the contribution of savings plans and related activities, such as income generation. • revisit the sensitivity analysis it uses to illustrate divergence from key assumptions, as a 1% variance may not adequately capture the level of volatility or the Council’s view of the degree of error possible in its estimates. <p>Management comment</p> <p>The Council will review best practice and consider any changes required for the 2025/26 budget process. However, it is worth reflecting how the council has successfully balanced budgets and increased its reserves set against a backdrop of government funding cuts.</p> <p>2023/24 Follow up</p> <p>Due to the timing of the 2022/23 recommendation the Council has not had the opportunity to implement any changes. We have raised a linked improvement recommendation in respect of the development and monitoring of savings plans. We will follow up on this recommendation in 2023/24.</p>
Compliance with policies	
 <p>Governance</p> <p>The Council could increase the level of assurance it has that officers and members have reviewed, and complied with, the terms of key policies such as those governing the receipt of gifts and hospitality.</p>	<p>Recommendation</p> <p>The Council should put in place a mechanism to provide positive assurance that officers and members have complied with the Council’s policies on receipt of gifts and hospitality during the year. This could be achieved through a periodic declaration, for example. The Council may wish to include in such a declaration confirmation that other key parts of the Code of Conduct had been read and complied with.</p> <p>Management comment</p> <p>The Council will consider this recommendation and assess what mechanisms could be put in place that provide more positive assurance of compliance with such policies.</p> <p>2023/24 Follow up</p> <p>Due to the timing of the 2022/23 recommendation the Council has not had the opportunity to implement any changes. We will follow up on this recommendation in 2023/24.</p>

Prior Year Issues reported by the predecessor auditor – Resolved

Decision making	
<p><u>Governance</u></p> <p>The Council conducted the debate around the approval of the Company's 2022 Business Plan in a way that damaged the Council's reputation and meant the Council was not able to set its budget in a robust and timely manner.</p>	<p><u>Recommendation</u></p> <p>The Council should learn lessons from the debate over 3 Rivers Development Limited's business plan and ensure future discussions around key strategic financial and operational decisions are conducted in a robust but constructive manner. This includes ensuring relevant actions and recommendations from internal and external reviews of its management of the Company, including this AAR report and the recent report of the Scrutiny Committee Working Group review, are monitored and implemented.</p> <p><u>2022/23 Management comment</u></p> <p>All external recommendations from the previous review of 3Rivers have been implemented. The 3Rivers soft closure timetable is agreed and progressing well and should transfer all assets back to the Council before the end of March 2024. The lessons learnt report has been considered and agreed by Scrutiny. Already delivered necessary savings to offset use of reserves in 2023/24 and balanced 2024/25 budget without the use of reserves. Remaining write off of losses to be funded from underspend / reserves without any short term implication on service delivery.</p> <p><u>2023/24 Follow up</u></p> <p>The actions taken by the Council in 2023/24 in closing 3 Rivers Developments Limited mean that we are satisfied that this recommendation has been actioned.</p>

Performance reporting	
<p><u>Improving economy, efficiency and effectiveness</u></p> <p>The Council has already improved its performance reporting regime and could develop this further to support delivery of key savings plans.</p>	<p><u>Recommendation</u></p> <p>The Council should include further information on the cost-effectiveness of services in its performance reporting to Cabinet, drawing on relevant benchmarks.</p> <p><u>Management comment</u></p> <p>The council has subscribed to CipfaStats+ and implemented the new performance reporting regime which will include national and local benchmarking for the 2024/25 financial year.</p> <p><u>2023/24 Follow up</u></p> <p>We have noted the actions set out in the management response. We have raised an improvement recommendation in respect of the performance reporting and consider this specific recommendation to be closed.</p>



© Bishop Fleming. All rights reserved.

Bishop Fleming is a trading name of Bishop Fleming LLP, a limited liability partnership registered in England and Wales No. OC391282, and Bishop Fleming Bath Limited, a limited company registered in England and Wales No. 07869428. Registered offices: Stratus House, Emperor Way, Exeter Business Park, Exeter, Devon, EX1 3QS. A list of members' names for the LLP is available at the above address.

