Auditor's Annual Report on Mid Devon District Council

2021/22

30 May 2023

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary

Value for money arrangements and key recommendations

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment		2021/22 Auditor Judgment		Direction of travel
Financial sustainability	Risk identified because of the Council's challenging financial context	Amber	No significant weaknesses in arrangements identified, but improvement recommendations made	Amber	No significant weaknesses in arrangements identified, but two improvement recommendation made	⟷
Governance	Risk identified because of the developing nature of governance across the Group	Amber	No significant weaknesses in arrangements identified, but improvement recommendations made	Amber	No significant weaknesses in arrangements identified, but improvement recommendations made – we note developments in relation to group governance which occurred in 2022/23 which present a risk of significant weakness, which we will follow up in our audit of 2022/23 VFM arrangements (see pages 4 and 7).	⟷
Improving economy, efficiency and effectiveness	No significant risks identified	Amber	No significant weaknesses in arrangements identified, but improvement recommendations made	Amber	No significant weaknesses in arrangements identified, but three improvement recommendations made	⟷

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

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Executive summary

Governance

For the most part the Council maintained clear systems and processes to maintain appropriate standards of governance in 2021/22. We have not identified any areas of significant weakness in the Council's governance arrangements with regard to decision making, managing risk, setting ethical standards and internal control in this year of review.

However, in the course of undertaking our 2021/22 VFM review in January and February 2023, we observed the emerging escalation of ineffective decision making in respect of the process for approving the 2023/24 business plan for the council's wholly owned subsidiary, 3 Rivers Development Limited.

This area of Council business has always been contentious, but divergent views regarding the future direction of the company have recently surfaced that raise concerns about the Council's ability to take timely decisions in the best interest of the Council. Specifically, delays resulting from the Cabinet and Council not being able to reach an agreed position on the company's 2023/24 business plan. During this period, Members including the then Leader made representations to us as the Council's external auditor, raising concerns around the decision making in respect of these business plans. During mid February 2023, four Cabinet members left their positions and a motion proposing the leader be removed was tabled to the 22 February 2023 full council meeting, in advance of which the leader resigned. This had knock-on impacts for the audit of the company's accounts and the council's own budget setting process. The 2023/24 Council budget finally agreed on 8 March 2023 was based on a limited agreement to fund 3 Rivers to complete sites already in progress, and was subject to an external review of the Company's role being commissioned by the Council.

We consider that these issues, identified during our 2021/22 audit work, could be indicative of significant weakness relating to the 2022/23 year, including with regard to:

- the Council's governance and oversight of its arm's length body in its role as shareholder; and
- a breakdown in normal good relations between key officer and member groups - both of which are key to effective decision-making.

We will undertake our 2022/23 VFM review promptly, following the conclusion of the Council's independent review.

The delay in the approval of the initial draft 3 Rivers business plan for 2023/24 and the subsequent revision to the plan has also resulted in the 3 Rivers auditor undertaking further work to inform their opinion for 2021/22. This in turn has prevented us from concluding the 2021/22 Council opinion audit.

Financial sustainability

The Council delivered a small surplus in 2021/22 and set a balanced budget for the 2022/23 financial year. The Council is not an outlier in terms of its overall level of usable reserves, or its long-term borrowing (relative to long-term assets). The Council continued to rely on contributions from reserves and reprofiling of existing budgets to set a balanced budget. We have not identified any significant weaknesses in arrangements for managing financial sustainability risk, however we make improvement recommendations that the Council establishes a more strategic programme of savings and efficiency plans and that, to support this, it is clearer in its financial reporting when it has identified or implemented efficiencies through savings on staff costs (particularly if such vacancies have adversely impacted activity levels).

Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness in 2021/22. The Council has demonstrated the capacity to develop and implement specific efficiency measures, particularly through its introduction of 3-weekly residual waste collection and needs to ensure it is adequately focused on realising the benefits of this change. The Council has worked effectively, delivered results and improved services through key partnerships, such as through its recent procurement partnership agreement with Devon County Council. We have made improvement recommendations that the Council build on this by formalising its partnership governance. By identifying its key partnerships and mapping systematically the aims, objectives, key results and financial impact of those partnerships, the Council will be better placed to identify how partnerships could contribute further. We also recommend the Council consider augmenting its performance reporting with more information on operational services and contract performance.

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Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	As at the 30 May 2023 our work on the Council's financial statements is substantially complete. We are, however, awaiting receipt of final group findings and audit report in respect of 3 Rivers Development Ltd from Simkins Edwards LLP (3 Rivers external auditors). Our findings are set out in further detail on page 25.
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 did not make 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 did not issue 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 did not apply 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 did not issue an advisory notice.
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 did not apply for Judicial Review

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Securing economy, efficiency and effectiveness in the Council's use of resources

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

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

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

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

Financial Sustainability

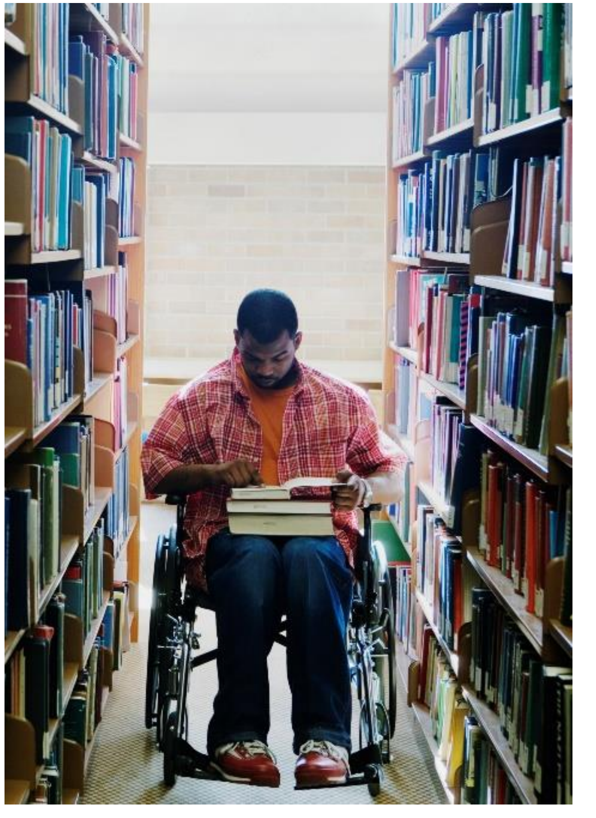
Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

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

Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 22. Further detail on how we approached our work is included in Appendix B.

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Governance

We considered how the Council:

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

Informed-decision making and appropriate challenge - 3 Rivers Development Limited

In prior years, we identified a number of issues in relation to the Council's governance of its wholly-owned subsidiary, 3 Rivers Development Limited (3 Rivers). These resulted in a qualified opinion on the Council's VFM arrangements in 2019/20. Our 2020/21 review focused on the Council's implementation of recommendations from external reviews of the Council's governance arrangements in relation to the Company. A number of improvements had been made at this time to governance arrangements to support it in discharging its responsibilities as shareholder including more regular progress reporting to Cabinet, and a revised Shareholder agreement. We did not identify significant weakness in arrangements in this year but made improvement recommendations.

In our Audit Plan for the 2021/22 year, we identified oversight of 3 Rivers as an area that carried a risk of significant weakness, and committed to following up our prior year recommendations, reviewing the work of internal audit (though, at the time of our review, internal audit had not carried out further substantive work in this area) and reviewing the latest business plans and performance monitoring arrangements. Our review in this area did not identify any significant developments from our 2020/21 report, and as such we have not identified a significant weakness in 2021/22.

In the course of undertaking our 2021/22 review of VFM arrangement in January and February 2023, however, it became clear that the usual timeline for Cabinet approval of company's annual business plan had been significantly delayed. Under the terms of the June 2021 shareholder agreement, a business plan is provided to the council in November each year for approval to feed into the Council's budget-setting cycle. The Council's Audit Committee and Scrutiny committee both challenged Cabinet's decisions in regard to approval of amendments to the company's business plans and this matter was subject ongoing debate at Cabinet and Full Council stretching into the final quarter of the 2022/23 financial year.

As our VFM audit progressed, it became clear that, despite further iterations of the business plan, the Cabinet and Council were not able to make a decision on the company's forward business plan. On 13 February 2023, Scrutiny Committee supported Full Council's recommendation of 18 January not to support the company's business plan and "to consider the forward funding plans in the light of external advice." It further recommended that Council undertake an external investigation into the Council's handling of this matter. During this period, Members, including the then leader, made representations to us, as the Council's external auditor, raising concerns around the decision making in respect of the latest 3 Rivers business plans. This included a request for us to undertake an independent review into the decision making on the 3 Rivers business plan.

On 14 February it was reported in local media that four Cabinet members had left their positions. Cabinet was therefore not quorate and could not proceed. The leader subsequently resigned in advance of the 22 February 2023 full Council meeting, at which a motion proposing removing the leader had been tabled, and an independent councillor was elected leader. On 8 March, full Council rejected all 3 Rivers business cases but agreed to fund to completion the development projects at St. Georges Court, Tiverton and Bampton. The Council also agreed to commission an external review of 3 Rivers to assist its decision making, at an estimated cost of £30,000. Subject to this, 2023 full Council approved the Council's budget for 2023/24. While the original draft 2023/24 Budget recommended to Full Council on the 22 February 2023 required a temporary transfer of £58,000 from the New Homes Bonus Reserve, the final budget required (among other changes) a contribution from general fund reserves of £500,000 in 2023/24 (to replace planned interest receivable from loans made to 3 Rivers). MTFP shortfalls increased by around £600,000 a year to £4 million by 2027/28 largely as a result of inflation and removing forecast payments from 3 Rivers.

We consider that these issues, identified during our 2021/22 audit work, could be indicative of significant weakness relating to the 2022/23 year. These could include risks relating to the Council's conduct of its role as the Company's shareholder, including its governance and oversight of its arm's length body, as well as a breakdown in normal good relations between key officer and member groups, both of which are key to effective decision-making.

We are aware the Council has now commissioned an external review of the company's ongoing role and it is appropriate that we await the conclusion of this review and its findings prior to revisiting this area as part of our 2022/23 VFM audit. We will undertake our 2022/23 VFM review promptly, following the conclusion of the Council's independent review.

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Governance (2)

Setting and monitoring the annual budget

There was adequate involvement across the Council and consultation with the public in relation the 2022/23 budget. The budget proposals considered by Cabinet in February 2022 were also circulated and considered by the Scrutiny Committee in January 2022 and were also considered by the Council's Policy Development Groups in November and January. As we note in the previous section the involvement of the policy development groups did not identify any specific savings plans in 2022/23. We make an improvement recommendation in relation to developing strategic savings plans within the Financial Sustainability section of this report (see page 15).

There was evidence of residents being given an opportunity to comment on the Council's spending plans and priorities: the Council held a residents survey on budget in November 2021, reporting the results in March 2022.

The Cabinet is provided with clear and appropriately detailed information to manage the overall budget throughout the year, primarily via quarterly financial monitoring reports. It is also clear that, through these updates, the Council keeps its financial planning assumptions up to date and takes account of factors such as inflation, funding, near-team demand and other factors, as relevant.

The Council also provides Members with a updates on treasury management activity throughout the year, including: an annual treasury strategy in advance of the year reported in February 2021; a mid-year update report in December 2021 and an annual review following the end of the year in June 2022.

We note the 2023/24 budget sign-off was substantially delayed because of a delay in signing off the business plan for 3 Rivers. This does not, however, reflect a lack of involvement by senior members or Cabinet or other Committees – there has significant scrutiny and challenge. We will report on this issue in more detail in our review of the Council's VFM arrangements for 2022/23 (page 7).

Risk management

The Council's risk management policy is approved annually by the Audit Committee in March, with the 2022/23 version approved in March 2022. The Council uses a risk scoring matrix, where "impact-times-likelihood" determines the total risk score which is RAG rated.

Committee roles in relation to risk are clear: the Audit Committee is responsible for approving the Risk management Policy and monitoring the operation of risk management. The Leadership Team meanwhile is responsible for setting risk appetite and identifying corporate strategic risks. There are regular performance and risk outturn reports submitted to Cabinet, Audit Committee and the Scrutiny Committee. Cabinet considered these reports in February, April, July, September and November 2021. The Audit Committee received the performance and risk outturn 2021/22 report in March 2022.

The risk management strategy demonstrates an awareness of the duality of risk by referring explicitly to opportunities and to missing opportunities as having a potential financial or non-financial cost. Audit Committee received the performance and Risk Outturn 2021/22 report in March 2022, and both it and Cabinet received quarterly performance and risk updates during the year.

We note that the Council was unable to progress our improvement recommendation from 2020/21 to improve the mapping of risks to corporate priorities, due to staff turnover. The Council is in the early stages of a review of its risk management processes. We therefore do not make any specific improvement recommendations at this stage but will keep this area under review in subsequent years

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Governance (3)

Internal Control

The Audit Committee approved the Audit Charter and Strategy for 2021/22 in March 2021. Internal Audit is provided by Devon Audit Partnership (DAP). DAP is a shared service arrangement between Devon County Council, Torbay Council, Plymouth City Council, Mid Devon District Council, Torridge District Council, North Devon District Council and Devon and Somerset Fire and Rescue Authority. DAP conforms to the requirements of the Public Sector Internal Audit Standards for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The Internal Audit plan for 2021/22 was also approved by the Audit committee in March 2021. Regular updates reports on Internal Audit progress were submitted to the Audit Committee during the year. These were submitted in July, September, November 2021 and January, March, and June 2022. The updates include an executive summary of work undertaken, performance against the audit plan, fraud issues and audits undertaken with assurance opinion. updates also includes performance indicators and progress against previous audit recommendations. The Annual Audit Report 2021/22 confirms that 90% of the plan was completed (meeting the target level).

The DAP annual report states that, overall, based on its work performed during 2021-22 and experience from previous years audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

There is evidence that the audit committee challenges risk rating when it considers it appropriate. For example, in January 2023 The Committee received, and noted a report which provided Members with an update on performance against the corporate plan and local service targets for quarter 2 (2022/23), as well as providing an update on strategic risks. The committee noted that staff turnover looked to be worse for 2022/23 and the impact this had on service delivery, but the resourcing risk has reduced. The Committee also noted in the years that in their view the risk rating relating to 3 Rivers Development Ltd should be rated higher than it was. Our review did not identify any significant weaknesses in internal controls during 2021/22.

Maintaining standards

We did not identify any weaknesses in the Council's arrangements at a corporate level with regard to maintaining standards maintains a code of conduct which details the expectations and behaviours of officers and members. There is also whistleblowing policy in place. The Members' code of conduct is based on the 7 'Nolan' principles of public life. Both codes of conduct are included in the Council's Constitution which was updated in October 2021. As we note on page 7, we are aware of risks relating to the governance and oversight of 3 Rivers, affecting the 2022/23 financial year, including a breakdown in normal good relations between key officer and member groups, which is key to effective decision-making. We will consider these issues as part of our 2022/23 VFM review, which we will undertake promptly following the conclusion of the Council's independent review.

Members are given an opportunity at the start of every meeting to declare their interests and the code of conduct for officers also requires them to declare interests. A central register of interests is maintained by electoral services and the team review this to identify whether a councillor has not made necessary declarations when newly elected.

The Council reported to us that no data breaches that were reportable to the Information Commissioner's office occurred during 2021/22.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. As already noted, issues identified in relation to 3 Rivers Development Limited during our 2021/22 audit work, could be indicative of significant weakness relating to the 2022/23 year. We will undertake our 2022/23 VFM review promptly, following the conclusion of the independent review of the Company.

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Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2021/22 Outturn

The Council's general fund outturn for 2021/22, reported to Cabinet on 28 June 2022, was an underspend of £29,000. This compares to a £65,000 deficit in 2020/21, which was funded from General Fund Reserves. Beneath the small underspend in 2021/22 lay some more significant service-level variances, which largely reflected the ongoing impact of the COVID-19 pandemic, and the changing financial environment in which the Council was operating during the year. For example, car parking income was reduced by a net £118,000 due to the impact of COVID-19, while a large underspend on public health (£758,000 against a budget of £978,000) was attributable to additional S106 income mainly related to pollution and additional Covid-19 related grants. The majority of these variances were earmarked to offset expenditure in 2022/23.

The Council transferred the 2021/22 surplus to the General Fund Reserve increasing the balance to £2.215 million, which meant that this reserve stayed above the Council's (unchanged) agreed minimum recommended level of £2 million.

The Housing Revenue Account was underspent by £67,000 in 2021/22, compared with a £94,000 underspent in 2020/21.

2022/23 budget

At the time of setting the 2022/23 budget in February 2022, the Council projected a shortfall of £145,000, which reflected the Council's review of available savings and a review of reserves, which identified £195,000 of reserves that the Council considered no longer necessary, or a low priority. The Council proposed to meet the remaining £145,000 shortfall through short term use of the New Homes Bonus (NHB) reserve.

The Council planned to transfer £1,759,000 into earmarked reserves to help mitigate future pressures, such as asset replacement through the use of sinking funds, including £460,000 into the New Homes Bonus reserve (the balance of the 2022/23 grant allocation not supporting the budget, prior to the proposed £145,000 balance adjustment through NHB) However, it also planned to draw down £2,614,000 from reserves on a one-off basis to fund planned expenditure in 2022/23. This implies a net reduction in earmarked reserves of £856,000, prior to the proposed £145,000 balance adjustment through NHB.

The Council has four Policy Development Groups (PDGs) and, in January 2022, ahead of budget-setting for 2022/23, these groups discussed of potential savings that might be made – for example, the Community PDG discussed customer retention and growth in the leisure service. Ultimately, however, no additional budget savings were identified by the PDGs. The February 2022 budget submission to Cabinet also indicates that savings plans played only a minimal part in bridging the 2022/23 budget gap with a greater reliance being placed on reserves, NHB (as set out above) and reprofiling of the capital programme. We cover the Council's approach to developing savings plans on page 11.

The council does not currently include explicit Section 25 statement on the robustness of estimates and adequacy of reserves from the Section 151 Officer in the 2022/23 budget narrative presented to Cabinet (though does so in its Council Tax resolution). The Council's Statement of Accounts for 2021/22 January 2023 also states that "*consideration has been given to the levels of reserves as these are the means by which the Council can manage any movements from the planned position in the short term.*"

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Financial Sustainability (2)

Medium-term planning and savings plans

The Council is aware of the difficult task it, alongside many other councils, faces in delivering a balanced budget in the coming years, with inflationary pressures on the Council's own cost-base combining with the increased cost of living for residents and ongoing service demand pressures.

Cabinet considered Council's draft medium-term financial plan (MTFP) covering 2022/23 to 2026/27, on 28 October 2021. The main purpose of the MTFP is to show how the Council will manage its finances in order to support the delivery of the priorities detailed in the Corporate Plan 2020 – 2024 and future years beyond that plan. The Council notes that its MTFP is based on the principle of achieving a balanced budget each year without the need to draw on General Fund Reserves (and to ensure that, if it does need to do so, as it did in 2020/21 outturn, the General Fund Reserve balance does not fall below the minimum agreed level, currently £2 million).

The October 2021 MTFP indicated a deficit of £1.643 million by 2026/27, with the financial shortfall compounded by continued uncertainty from ongoing delays in the Government's reviews of Fair Funding, New Homes Bonus and Business Rates Retention. The Council expected that pressure from the cost of living crisis would further increase this deficit. This future budget gap was equivalent to approximately 13% of the projected budget requirement by 2026/27. However, if no remedial action was taken to reduce the overall level of spend, the MTFP predicted an estimated cumulative shortfall on the General Fund budget of £7.739 million (made up of the cumulative amounts required to balance the budget each year), far exceeding the General Fund Reserve (see page 10). We note that at February 2022 Cabinet a revised MTFP position was presented indicating a deficit of £2.165 million in 2026/27.

This indicates that the Council, while managing to set a broadly balanced budget for the 2022/23 year, had not yet identified the level of ongoing savings that it may require to set its finances on a more sustainable footing over the medium term. Neither the 2022/23 budget nor the MTFP included explicit consideration of longer-term financial impacts of staffing costs or demand for services stemming from longer term changes demand for services or demographic changes. There was however some discussion of other contextual changes such as the introduction of Universal Credit.

In our 2020/21 AAR we noted that the Council had not yet developed a strategic programme of savings plans to evolve its short-term use of reserves to balance the budget, though there were signs of a more strategic approach was being developed. However, our discussions with the Council for our 2021/22 audit and our review of the budget-setting for 2022/23 indicate that while the Council has progressed specific savings plans it has not set these out as an identifiable 'programme' that can be monitored and tracked. For the 2022/23 budget the Council remained reliant on: identifying shorter-term tactical savings; underspends on staff budgets; and contributions from reserves to balance the budget. There is a risk that a short-term, tactical approach to savings focused on the next year's budget may not be effective in identifying savings that optimise for money over the long-term. There is also a risk that identifying short-term savings without carefully working through downstream cost implications or investments needed to realise such savings might even increase long-term costs.

We note that financial monitoring returns presented to Cabinet often refer to "salary savings" but these can conflate efficiency savings (for example, the Council has identified a partnership with Devon County Council on its procurement activity as an efficiency because it has made a net salary saving compared to replacing a vacant procurement manager post); and simple underspends (for example, the November 2021 financial monitoring return to Cabinet references, in the caretaking services cost line, a saving of £118,000 'due to vacant posts', but it is not clear whether or not this had an impact on the service provided.

PDGs are consulted on draft budgets but specific savings plans for the year ahead were not identified in 2021/22. We are also aware that as part of the 2023/24 budget setting process, each of the six members of the Council's senior management team was asked to identify a flat £100,000 of savings within their service area.

The Council is aware that that its planning horizon needs to extend more towards the later years of its medium-term financial planning windows and we note it has shown capacity to develop and deploy longer-term savings initiatives even when these do not always deliver results immediately. For example, efficiencies (such as the Council's recent move to 3-weekly residual waste collection – see page 19) are designed as longer-term savings measures).

We recommend the Council develops process to identify and track key medium-term savings initiatives to help manage the ongoing risk of funding gaps. It would be good practice for its tracking to identify the target savings and payback period and whether any investment is affordable, and whether in-year and cumulative targets had been met.

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Financial sustainability (3)

Capital Strategy and Programme

The Council maintains a clearly-written capital strategy, which gives a high-level overview of how capital expenditure, capital financing and treasury management contribute to the provision of the Council's priorities and services, and how risk is managed and the implications for future financial sustainability. Service managers bid annually to include projects in the Council's Capital Programme. Bids are collated by Finance staff who calculate the financing cost before the relevant Policy Development Groups appraises bids. The final capital programme is then presented to Cabinet in February each year and to Council the same month. The plan is couched as an 'enabling' strategy which supports delivery of the corporate plan as a whole. The Council presented a refreshed capital strategy to Cabinet in February 2022.

General Fund capital spend in 2021/22 was £7.4 million, which included £3.7 million of net additional loans to 3 Rivers Developments Ltd, and £2.2 million to help build an NHS hub (Redlands Primary Care). Meanwhile HRA capital spend of £4.2 million included £2.4 million on major repairs to housing stock and £636,000 on new modular hosing schemes.

The Council has a significant proposed capital programme over the medium term. The Capital Programme for 2022/23 presented to Cabinet in February 2022 was for a total of £57,542 million comprising £23,239 million carried forward from 2021/22 and 34,303 million of funded investment. Within this, the £39,164 general fund programme includes £13.054 million investment schemes for Infrastructure projects in Tiverton and Cullompton (funding is still being sought for the Tiverton project); and £3.534 million investment in Housing Developments through 3 Rivers Development Limited. Forward capital programmes and forecasts will, however, be significantly affected by subsequent decisions relating to revisions to the business plan for 3 Rivers Development Limited, and we will examine the implications of this for the Council's forward capital and revenue budgets as part of our review of the Council's VFM arrangements for 2022/23. The £18.378 million HRA Capital programme covers both new investment and repairs to existing stock.

The Council makes clear the revenue implications of capital investment in both its annual budget and its MTFP. The most significant funding source required to support the proposed 2022/23 programme was the £12.426 million borrowing from the Public Works Loan Board (PWLB). The associated capital financing costs are included within the relevant general fund or HRA budget.

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Financial Sustainability (4)

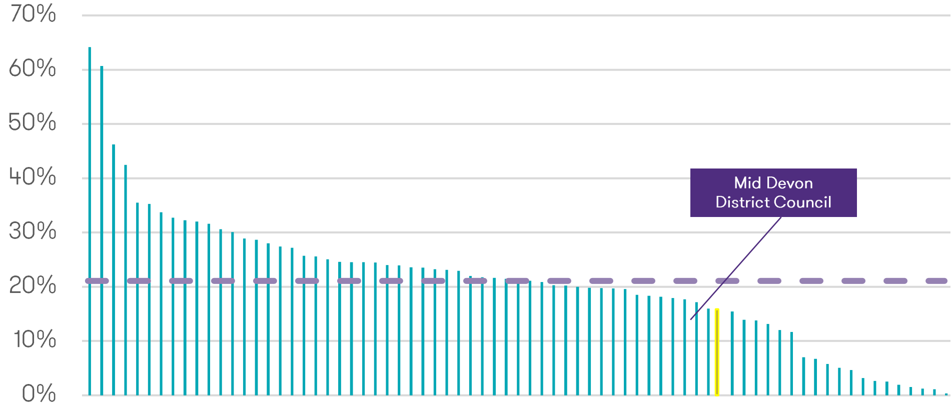
Borrowing and managing the costs of financing capital projects

As set out on page 12, the Council has a significant capital programme over the medium term with proposed investment totalling some £113,981 million over the period 2022/23 to 2025/26. This included £54.7 million of commercial loans to 3 Rivers Development Ltd (though individual schemes would be subject to individual loans agreements made on a project by project basis). As set out on page 12, forward capital programmes and forecasts would inevitably be significantly affected by future decisions relating to the business plan for 3 Rivers Development Limited, and the figures presented on this page do not reflect the impact of any such decisions and reflect the position as the Council understood it during 2021/22.

Analysis of Grant Thornton's CFO Insights benchmarking data indicates that the Council did not have a particularly high ratio of long-term borrowing to long-term assets in 2021/22 (Figure 1). However (during 2021/22) the Council expected to borrow substantially more over the coming years, with a majority being external borrowing (Figure 2). The costs of financing this debt were also expected to rise as a proportion of the Council's revenue budget. In its 2022/23 budget the Council expected the cost of financing to represent 5.96% of net revenue against the General Fund and some 21.82% of net HRA revenue expenditure by 2024/25 compared to 0.79% and 15.07% respectively in 2020/21. This represents a significant and rising portion of the revenue budget and it is therefore essential that the Council is robust in monitoring whether this investment is providing the financial and non-financial returns expected.

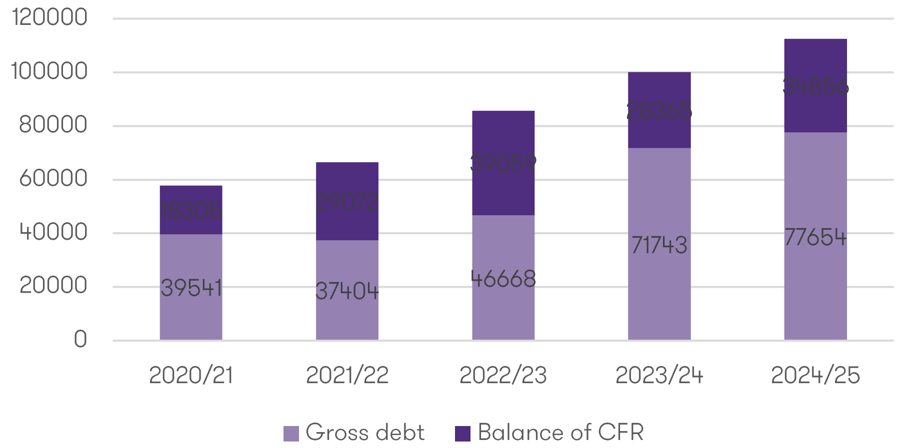
The Council is responsible on an annual basis for determining the amount charged for repayment of debt. This is known as Minimum Revenue Provision (MRP). The MRP charge in 2021/22 was £1.663 million, a net decrease of £0.028 million from 2020/21. Our audit of the Council's financial statements found that this amount had been calculated in line with statutory guidance and that the Council's policy on MRP also aligned with statutory guidance. We reported in our 2020/21 Auditor's Annual Report, and the Council recognises in its budget planning, that the Council does not charge MRP on it loans to 3 Rivers. This is because it funds assets that are under construction – to which MRP does not apply. Once the assets are complete and MRP would normally become chargeable, they are sold by 3 Rivers and the loan is repaid. In November 2021 the Government opened a consultation on potential changes to regulations around MRP charges for 'commercial' purposes and we recommended in our 2020/21 Auditor's annual report that the Council ensure compliance with and revised regulations as necessary. We understand that these changes will apply from 2023/24. We do not repeat our previous recommendation but note that the Council will need to monitor the situation on an ongoing basis.

Figure 1: Long-term borrowing as a proportion of long-term assets (%)



Source: Grant Thornton CFOi Benchmarking data for 2021/22

Figure 2: Forecast Capital Finance Requirement and gross borrowing – 2021/22 to 2024/25



Source: Mid Devon District Council

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Financial Sustainability (5)

Treasury management

The Council maintains an appropriate Treasury Management strategy that covers both borrowing and investment activity, and provides updates to members throughout the year. Interest on investments was higher than forecast following the rise in interest rates in the latter part of the year. After including interest from lending to 3 Rivers Developments Ltd the Council generated interest of £558,000 in 2021/22. The Minimum Revenue Provision was also £65,000 lower than forecast due to lower than expected capital expenditure. As noted elsewhere, the Council holds a 100% interest in 3 Rivers Development Limited, a private limited company engaged in construction in the Mid Devon area. The Council makes loans to the Company to with the intent that that they are repaid from the proceeds of the sale of the developments. During the year ended 31 March 2022, a net £3.4 million was loaned to the Company and the total outstanding loan value at this date was £13.6 million. During the year £558,000 interest was received by the Council in respect of these loans.

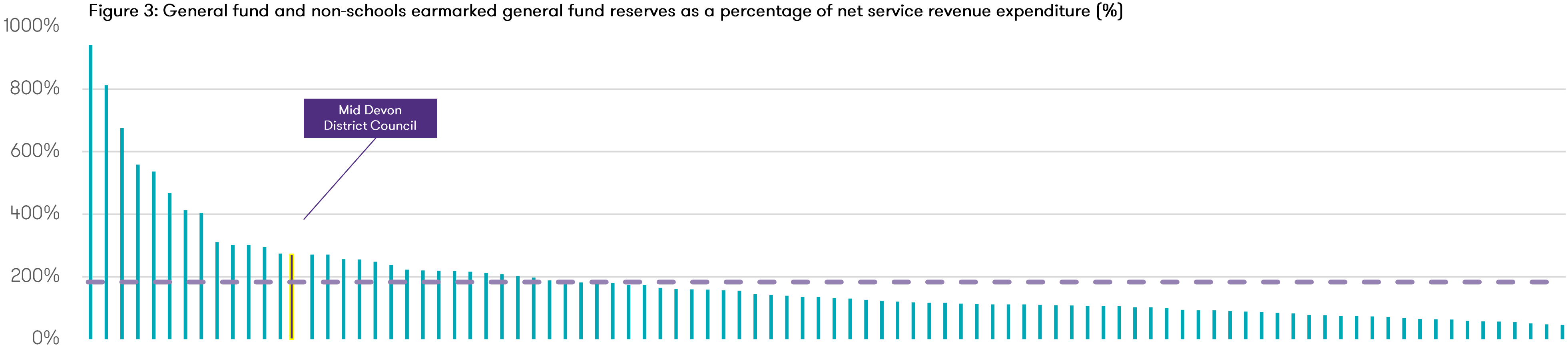
Reserves

The General Fund Reserve held a balance of £2.186 million at the start of 2021/22. On 28 June 2022 Cabinet was asked to approve the final £29,000 surplus generated in 2021/22 to this Reserve leaving a balance of £2.215 million, which was above the Council's recommended risk-based minimum level of £2 million as required by Cabinet agreement on 16 January 2020. In addition to the General Fund Reserve, the Council held £20.7 million in a number of Earmarked Reserves where service underspends are kept to help fund anticipated future expenditure commitments, giving a total of £22.9 million general fund reserves, compared to £22.4 million in 2020/21, an increase of around £0.43 million (note totals do not cast due to rounding). The Council is not an outlier in terms of these reserve levels compared to other District Council. The Council also held £2 million in its HRA reserve and £22.7 million in earmarked HRA reserves, and £9.3 million capital reserves as the end of 2021/22, giving a total of £56.7 million usable reserves. Compared to other District Councils, the Council maintains a relatively high ratio of general fund and earmarked revenue reserves relative to its net cost of services (see Figure 3 below).

Conclusion

Overall we did not identify any significant weaknesses in relation to financial sustainability in 2021/22 but we make two improvements recommendations in relation to setting more strategic savings plans over the medium term and clarity of the reporting of salary savings and underspends in routine financial monitoring returns.

Figure 3: General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



Source: Grant Thornton CFOi Benchmarking data for 2021/22

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Improvement recommendations

Financial sustainability

Recommendation 1	We recommend the Council develops process to identify and track key medium-term savings initiatives to help manage the ongoing risk of funding gaps. It would be good practice for its tracking to identify the target savings and payback period and whether any investment is affordable, and whether in-year and cumulative targets had been met.
Why/impact	There is are risks attached to a short-term, tactical approach to developing savings plans and the council will need a medium-term approach to savings delivery to optimise value for money. A rigorous approach to benefits and savings realisation is a key part of managing a savings programme effectively
Summary findings	As in our 2020/21 AAR we noted that the Council's had not yet developed a strategic programme of savings plans to evolve its short-term use of reserves to balance the budget, and this year we found that it currently remains reliant on identifying shorter-term tactical savings, underspends on staff budgets and contributions from reserves to balance budgets year to year.
Management Comments	The Council has a good MTFP forecasting process that identifies the estimated budget gap to be mitigated. The corporate management team look to identify savings or income generation options and review with the political administration to align to the local priorities. Building on this the newly appointed Performance Manager will help to develop a clearer link between budget savings and performance.

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

Improvement recommendations

Financial sustainability

Recommendation 2	When identifying salary underspends in its financial reporting the Council should be clearer whether the financial underspend has led to any reduction in quality or service level (such as reduced activity, backlogs or delays) or whether a genuine efficiency saving (where costs have been reduced without adversely impacting quality) is being identified.
Why/impact	A cost reduction that also reduces value does not improve value for money. Efficiency gains can be achieved incrementally, and do not always need to come from transformative changes - but in either case the impact on quality and service users' needs has to be considered.
Summary findings	The Council's financial reporting is not always clear on whether reported salary savings result from planned or value-adding changes or are unplanned underspends that may reflect unplanned reductions in activity (or may be offset against increased agency costs).
Management Comments	With the new Performance Manager in post, the Council are looking at options to further integrate financial and performance reporting.

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

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Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance measurement and use of performance information

The Council has established arrangements for reporting key performance indicators (KPIs) to Cabinet and provides detail on each KPI in an appropriate format. Cabinet received a outturn performance report for 2020/21 reported in July 2021, and received updates in September 2021 and February and April 2022. Each report provides a headline narrative with the detailed performance indicators included as an annex. Performance indicators show include the relevant corporate priority and aim, with previous year's performance, target and monthly actual performance. The performance is RAG rated accompanied by the responsible managers' notes.

The Council has a Data Quality Policy and associated data Quality standards, which should be refreshed and presented to Audit Committee every 4 years. The most recent versions were presented to and approved by the Audit Committee on 22 November 2022. The policy confirms the Council's view that fit-for-purpose data is integral to performance management and should be accurate, valid, timely, relevant and complete. Roles and responsibilities are set out as well as the need for adequate controls over data input and verification of data.

There is evidence that the Council has used information from service users' feedback to improve its services. The Council provided an annual report on complaints and compliments to Cabinet in October 2021. While complaints had increased 41% in the preceding year from 252 to 354, compliments also increased 32% from 100 to 132. In May 2022, the Council produced a specific report on housing complaints which aimed to help "promote a positive complaint handling culture and drive service improvement through lessons learned from complaints, to Members."

The complaints annual report detailed 18 lessons learned which along with the specific service improvements undertaken. This report also includes some informal benchmarking with other providers against complaint trends.

In April 2022, Cabinet considered a mid-point review of the Council's February 2020 Corporate Plan, reflecting on performance over the previous two years. The report identified that there were a range of areas in the Plan where no specific KPI (or proxy indicator) existed to measure performance (covering some 21 specific areas or potential KPIs). An LGA peer challenge report from March 2022 recommended that the Council "Use the mid-term re-set of the corporate plan as an opportunity to review priorities in light of capacity constraints and ensure member ownership of both the process and the outcome".

Our review of the Council's performance and risk reports also shows that the Council reports a large number of indicators, and it is not always clear how useful each is as a measure of service performance, particularly from a service-user perspective. For example, the chosen indicator for leisure centres is "health referral initiative" starts, completions and referrals, with 102 starts recorded against a target of just 15. In other cases, there may be further information that would build the picture of performance. For example, the Council was at, or above, target for all its housing repair timeliness indicators – but its annual review of complaints and compliments shows that while it received 51 compliments on this aspect of its service from September 2020 to August 2021, it also received 74 complaints.

Our discussions with the Council indicate that it is at the early stages of a review of its key performance frameworks. This provides a good opportunity to consider whether it its reporting 'measures that matter' to Members and also to its residents, service users and other stakeholders (see recommendation 3 on page 20).

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Improving economy, efficiency and effectiveness (2)

Performance measurement and use of performance information (cont.)

Internal Audit's 2021/22 Annual Report highlighted instances where performance information at service level was not being collected or reported to allow effective monitoring and decision-making. For example, its review of the Care Services alarm contract in September 2021 found that the Council did not have effective processes to check that faults were rectified quickly, complaints are resolved, and equipment is accounted for. We note that a September 2022 follow-up report on this specific service returned a 'Reasonable Assurance' opinion and that processes service to rectify faults had improved. Our discussions with the Council confirmed that the Council's contracts are managed only at service level, and there is no particular 'integrating' mechanism by which performance would be reviewed at a higher level. The Council also confirmed that the Scrutiny Committee would not, on a business-as-usual basis, consider contract performance. We recommend the Council review the assurance it has over whether its contracts have key elements of assurance in place, drawing on an established framework such as the Crown Commercial Service contract management framework.

The granular information that service and contract managers need to run their operations effectively can play a key role in tracking the Council's overall performance. As well as complaint information which the Council is monitoring (see page 17), this could include process indicators (how well things are being done) and customer contact indicators, which are 'leading' indicators that highlight problems early or track progress closer to when the issue would actually be experienced by service users, rather than 'lagging' indicators that identify issues track resolution progress after things have gone wrong (such as complaints).

We recommend the Council consider, for example, as part of its current review of performance indicators, whether service and contract managers have access to the information and data they need to run their services effectively, and whether the links between strategic reporting to members and more granular service-level information are sufficiently clear (This does not mean reporting the same information to everybody as the information needs of service managers and members will not always be the same, but it should be clear, for example, when service managers should to escalate a service problem to a more strategic level.)

Partnership working

There is evidence that the Council has worked effectively within a number of its key partnerships, translating aims into meaningful actions and results, particularly in relation to COVID-19 and the Council's wider economic development aims.

In March 2022, an LGA peer challenge report noted that the Council led "an impressive response to the Covid pandemic" and worked in partnerships to support local communities, quickly redeploying staff to meet the constantly changing demands of a dynamic response, which included setting up and maintaining a Shielding Hub to coordinate food deliveries etc for vulnerable residents, as well as running testing centres and administering over £35 million of various Covid Support grants.

The Council has also been open to exploring collaboration with other councils to develop key areas of capabilities. As set out on page 19 below, the Council has a service level agreement SLA with Devon County Council to provide specialist support with procurement activity, which has been useful following the departure of a senior procurement officer. The Council's revenue outturn for 2021/22 identifies a salary saving in the public health area of £46,920 attributable to partnership working with Devon County Council on Covid-19 issues (see page 16, however, for an improvement recommendation in relation to the Council's reporting of salary savings).

The LGA peer challenge report also notes that the Council has delivered results via partnership working in the economic growth and regeneration arena, noting that in particular the successful bid to create a train station in Cullompton, which the report cites as *"an impressive achievement and […] testament to the Council's successful approach to exerting influence and achieving improved outcomes through partnership working."* The Council is also engaged in the Team Devon partnership - a public and private sector partnership including representatives from business, education, the Local Enterprise Partnership (LEP) and the public sector brought together to develop a plan for economic recovery in Devon.

The Council has not, however, prioritised improvements to its partnership governance by developing a partnership register as we recommended in 2020/21 Auditor's Annual Report (AAR). Given the important of partnership working as to deliver of aspects of its corporate plan, and the financial savings it has already identified, we continue to consider that investment in partnerships governance would help the Council maximise the value provided by its partnerships. We recommend the Council maps its key partnerships systematically and set outs: their aims and objectives, its financial commitment, the service improvement or other goals, and whether the intended goal are being achieved. This will enable it to identify clearly the value its ongoing partnerships add, and may assist in identifying where similar partnerships offer further opportunities for efficiencies to be made, including other areas in which collaboration could help the Council address skills gaps, particularly where it might otherwise struggle to recruit or retain skilled individuals.

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Improving economy, efficiency and effectiveness (3)

Figure 4: indicative benchmarking of Mid Devon District Council service costs against other similar councils

Service area block	Relative position in 2022/23
Housing Services	AVERAGE
Environmental & regulatory*	LOW
Planning & development	VERY HIGH
Highways & transport	AVERAGE
Cultural & related	HIGH
Central services	HIGH

Note: Mid Devon benchmarks low for Environment and Regulatory services unit cost overall but high for some specific services including cemetary, cremation and mortuary services and recycling.

Cost-effective delivery

The Council is aware that the unit costs of services in its Waste and Planning services are high, correlating with high use of agency staff in those areas (the same areas are also highlighted in our benchmarking analysis of the Council's unit costs of service – see Figure 4 opposite). The Council's 2021/22 Statement of Accounts confirmed that the Council incurred additional expense across many services because of the use of short term agency staffing to cover absences through vacancies, holiday, sickness and training and the additional requirements from central Government. It noted that recruitment has been particularly difficult with few seeking to change jobs in the economic circumstances.

During the first three quarters of 2021/22 the Council spent £533,028 on agency workers (some of this spend to provide cover to critical services during COVID-19). In the last two financial years the Council has paid out £534,378.49 in 2019/20 and £576,368 in 2020/21 so the year-end projection of a further £150k represents an increase). The Council uses agency workers provide cover to vacant posts, as well as employees who are sick or absent. As well as addressing capacity issues, however, the Council's ability to recruit and retain skilled individuals to key roles is a key issue affecting value for money in the long term and, as with other councils, Mid Devon District Council has to adapt to a tight post COVID-19 labour market and compete for skilled staff.

On 1 February 2022, Cabinet agreed a move to 3-weekly residual waste collections. Part of that change is to provide households with a wheeled bin for their waste. Approval was sought to add a £750,000 one-off expenditure to the 2022/23 Revenue Budget, fully funded from Earmarked Reserves, for the purchase of larger wheeled bins to help residents manage the increase accommodate volumes of recycling and residual waste. The cost of the bins has previously been estimated at £650,000 with the increase attributed to general inflation. The new service is expected to deliver financial savings (relative to projected costs under the old service) from 2023-24, though the Council acknowledges that the absolute cost of waste collection may still rise do to inflationary pressures on key inputs into the service, such as fuel.

The Council has demonstrated an innovative and pragmatic approach to addressing skills gaps within its procurement team by entering into a partnership with Mid Devon County Council through a Service Level Agreement to provide procurement advice and support. The Council has, in the past, maintained a small in-house procurement team comprising around 3 FTE. In April 2021, a key, senior member left the team and the Council struggled to recruit suitably skilled people to this key role. From June 2021, Devon County Council (DCC) provided interim reactive support, including procurement advice and guidance to services in undertaking procurements including contractual support.

Cost-effective delivery

Overall we did not identify any significant weaknesses in relation to improving economy, efficiency and effectiveness in relation to the 2021/22 financial year. We recommend the Council improve its oversight of key partnerships and contracts and also consider using more operational and service data in its core performance reporting (see pages 20-22). We also recommended in our 2020/21 AAR that the Council make greater use of benchmarking to identify opportunities to identify improvements and potential targets for efficiency savings. Although the Council reported that there was an intent for the 2023/24 budget process the intention to broaden benchmarking against national indicators and statistical nearest neighbours, this has in practice been delayed due to turnover of a core staff member and a delay in recruiting their replacement until October 2022.

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 3	In taking forward its review of its performance framework and KPI suite, the Council should: consider including more indicators that capture operational and customer-focused issues, which could be integrated into strategic reporting, to ensure key stakeholders' perspectives are represented.
Why/impact	Integrating operations and strategic performance indicators can provide a more rounded view of how services are performing and better represent the perspectives of multiple stakeholders.
Summary findings	The Council identified as part of its Corporate Plan mid-point review that there are areas of its corporate plan without associated KPIs; meanwhile, Internal Audit reports have drawn attention to issues with service-level performance data in some cases.
Management Comments	With the new Performance Manager in post, the Council are looking at options to refine is performance framework and KPI suite. As part of the business planning process Services are expected be more transparent in the evaluation of service performance against local and national best practice. Overarching service performance is monitored monthly by a senior corporate officer board.

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

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 4	The Council should map its assurance framework for key contracts. This should include assuring itself that service managers have access to the information and data they need to monitor and report on service performance effectively and whether the links between service-level and strategic reporting to Members is clear, for example, when service managers should to escalate a service problem to a more strategic level.
Why/impact	Good-quality monitoring or service and contract performance is vital to ensuring those services are delivering as the Council – and residents – expect alongside as well as monitoring of more high level and strategic indicators.
Summary findings	The Council does not maintain central oversight of contract performance or a central assurance plan for key contracts to ensure a cross-Council view of whether key contracts are delivering as expected]. Internal audit reports have also highlighted areas of improvement in service-level performance information.
Management Comments	The council will look to review and improve its contract performance framework. Building on best practise examples and support from the Devon Procurement Partnership training will be given to service managers in what to do, proportionate to the value of the contract, with the corporate overview held by the procurement team.

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

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 5	We recommend the Council maps its key partnerships systematically and set outs: their aims and objectives, its financial commitment, the service improvement or other goals, and whether the intended goal are being achieved. This will enable it to identify clearly the value its ongoing partnerships add, and may assist in identifying where similar partnerships offer further opportunities for efficiencies to be made, including other areas in which collaboration could help the Council address skills gaps, particularly where it might otherwise struggle to recruit or retain skilled individuals.
Why/impact	The Council has achieved good results through partnerships but does not have a systematic approach to partnership governance. Like other councils, the Council has struggled to recruit to some skilled roles given the financial constraints it operates under and the tight post-pandemic labour market.
Summary findings	The Council has incurred additional costs through ongoing use of agency staff in several service areas. Furthermore, it has struggled to recruit skilled individuals to some key posts. However, it has showed an innovative response in its procurement service by entering into an SLA with Devon County Council to provide access to specialist procurement advice without recruiting The Council has not, however, prioritised improvements to its partnership governance by developing a partnership register as we recommended in our 2020/21 AAR. Given the important of partnership working as to deliver of aspects of its corporate plan, and the financial savings it has already identified, we continue to consider that investment in partnerships governance would help the Council maximise the value provided by its partnerships.
Management Comments	As stated in the previous audit response, the council does not have many key strategic partners and at this time does not feel it necessary to map them. 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.

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Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	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.	Improvement	March 2022	On review we could not identify this statement in the budget report for 2021/22. However, similar statements were included in the year-end accounts and CTR.	Partly	Yes – this statement should be clear and easy to find in the budget submission
2	The Council should review the difference in interest income to ensure consistency between the 3 Rivers business plan and the Councils revenue budget and provide reconciliations to the commercial capital financing requirement in the Treasury Management Strategy.	Improvement	March 2022	We will report further on progress against this recommendation following our review of the Council's VFM arrangements for 2022/23	-	We will consider whether further action is required following our review of the Council's VFM arrangements for 2022/23
3	Where significant uncertainties exist within financial planning, then a scenario analysis should be included within the medium-term financial plan (MTFP), to give the range of potential impacts.	Improvement	March 2022	Scenario Analysis is undertaken in forecasting income and expenditure and is included within Appendix 1 of the October/November MTFP report.	Yes	No
4	Council should include the actual inflation assumptions used in financial planning within the MTFP report	Improvement	March 2022	The inflation assumptions are included within Appendix 1 of the October/November MTFP report.	No	No
5	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.	Improvement	March 2022	The Council remains reliant on shorter term and tactical savings to balance revenue budgets year-to-year.	No	The Council needs to develop a strategic approach to medium term savings plans (see page 15
6	The Council should ensure that it complies with the revised 2003 Regulations when they are published by providing prudent MRP provision on capital loans to 3 Rivers Developments.	Improvement	March 2022	The Council believes it is compliant but continues to monitor whether this is required.	Partly	The Council should continue to monitor this and ensure it is compliant
7	The Treasury Management Strategy and Annual Review reports should contain the budget and outturn information where relevant, for interest income, interest costs and MRP.	Improvement	March 2022	MRP and financing costs as a proportion of revenue spend is clearly identified in the Council's Capital Strategy and year-end accounts	Partly	No

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Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	Risks within the Councils Corporate risk register should be mapped to corporate priorities.	Improvement	March 2022	The Council has not progressed this recommendation. Improvements to this area have were delayed as the previous performance and risk manager left the Council in February 2022 and her replacement started in October 2022. The Council reports that With the new Performance Manager in post, risks will being reviewed and mapped to corporate priorities	Yes	Yes – ongoing development as part of the Council's review of its performance and risk frameworks
9	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.	Improvement	March 2022	The Council has not progressed this recommendation. The Council considers that the budget is already clear in terms of how we are against the budget gap.	No	No
10	The Company (3 Rivers Development Limited) should address the weaknesses identified by internal audit in relation to the 3 Rivers risk register.	Improvement	March 2022	We will report further on progress against this recommendation following our review of the Council's VFM arrangements for 2022/23	-	We will consider whether further action is required following our review of the Council's VFM arrangements for 2022/23
11	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.	Improvement	March 2022	We will report further on progress against this recommendation following our review of the Council's VFM arrangements for 2022/23	-	We will consider whether further action is required following our review of the Council's VFM arrangements for 2022/23
12	The Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved.	Improvement	March 2022	The Council intends to use benchmarking more from 2023/24 budget onwards via CIFFAstats+	No	No
13	The Council should consider the need for a partnership register and strategy.	Improvement	March 2022	The Council has not progressed this recommendation – see management response to recommendation 5 above.	No	Yes – we recommend the Council invest in its partnership governance to map systematically its involvement in key partnerships and the results it is achieving (see recommendation 5).

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Opinion on the financial statements

Audit opinion on the financial statements

As at the 30 May 2023 our work on the Council's financial statements is substantially complete. We are, however, awaiting receipt of final group findings and audit report in respect of 3 Rivers Development Ltd from Simkins Edwards LLP (3 Rivers external auditors).

Subject to the satisfactory resolution of this outstanding issue we anticipated giving an unqualified opinion on the Council's financial statements for 2021/22.

Audit Findings Report (AFR)

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee in January 2023. The continued delay in concluding this work is due to the outstanding opinion in respect of the 3 Rivers 2021/22 audit.

Preparation of the accounts

The Council provided draft accounts in line with the agreed timetable along with supporting working papers.

Issues arising from the accounts:

Our work to date has not identified any material errors or adjustments to the financial statements. No adjustments have been identified that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

To date, two adjustments to the draft financial statements of 3 Rivers Developments Ltd as a result of their audit, this will require adjustments to the Council's group financial statements.

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

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Appendices

Appendix A – Responsibilities of the Council

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

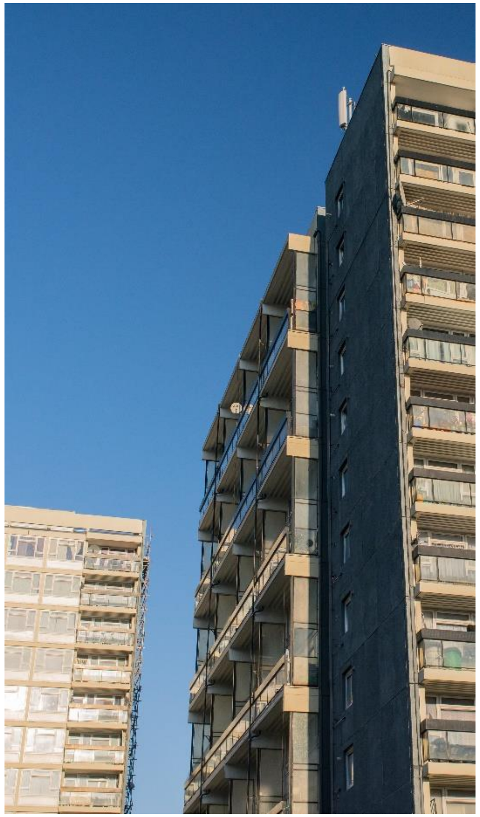
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

The Chief Financial Officer (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.



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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.	We reviewed the Council's budgeting processes and its MTFPs, and particularly its approach to developing medium term savings plans interviewed the Section 151 officer to identify any changes to the process. We considered established good practice in setting and monitoring efficiency savings targets, including reports from the National Audit Office.	Our findings are set out in the relevant section above and in summary we consider that the there were no significant weaknesses in relation to 2021/22, but the Council remained reliant on shorter-term measures to balance the budget.	Two improvement recommendations raised.
Governance of the group (specifically 3 Rivers Development Limited was identified as a potential significant weakness, see for more details.	We set out how we addressed this risk in detail on Page 7.	We did not identify a significant weakness in relation to this risk in 2021/22 – however we have identified issues in relation to 2022/23 which may be indicative of a significant weakness and we will report on this in more detail following the conclusion of the Council's external review of the Company, as part of our 2022/23 VFM audit work.	No recommendations raised in relation 2021/22.

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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.	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 – but see pages 7 and 28
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	15-16; 20-22

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