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To: The Chair and Members
of the Audit Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 18 November 2020

Contact: Fred Whitehouse, 01392 381362
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AUDIT COMMITTEE

Thursday, 26th November, 2020

A meeting of the Audit Committee is to be held on the above date at 10.30 am at Virtual meeting. For public participation (questions /representations), please contact the Clerk for further details on attendance. to consider the following matters.

Phil Norrey
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for absence

2 Minutes

Minutes of the meeting held on 28th July 2020 (previously circulated).

3 Items Requiring Urgent Attention

Items which in the opinion of the Chair should be considered at the meeting as a matter of urgency.

4 EXTERNAL AUDIT - Update on the Financial Reporting Council (FRC) report on local audit (Pages 1 - 6)

Report provided by Grant Thornton via the County Treasurer (CT/20/103), Attached

Electoral Divisions(s): All Divisions

5 Devon Pension Fund Audit Findings Report 2019/20, Part I (Pages 7 - 34)

Report provided by Grant Thornton via the County Treasurer (CT/20/94), Attached

Electoral Divisions(s): All Divisions

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

6 Exclusion of the Press and Public

Recommendation: that the press and public be excluded from the meeting for the following items of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act namely, the financial or business affairs of the a third party and of the County Council and in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

7 Devon Pension Fund Audit Findings Report 2019/20, Part 2

Report to be provided by Grant Thornton via the County Treasurer. The Report will follow.

Electoral Divisions(s): All Divisions

PART 1 - OPEN COMMITTEE

8 Re-admission of the Public and Press

Recommendation – that the press and public no longer need to be excluded from the meeting and can be readmitted.

Electoral Divisions(s): All Divisions

9 Devon County Council Audit Findings Report 2019/20 (Pages 35 - 78)

Report provided by Grant Thornton via the County Treasurer (CT/20/95), Attached

Electoral Divisions(s): All Divisions

10 Statement of Accounts and Annual Governance Statement 2019/20 (Pages 79 - 284)

Report of the County Treasurer (CT/20/96), Attached

Electoral Divisions(s): All Divisions

11 Key Messages from the Redmond Review

Presentation from the Head Accountant

Electoral Divisions(s): All Divisions

12 Revised Internal Audit Plan, 2020/21 (Pages 285 - 300)

Report of the County Treasurer (CT/20/92), Attached

Electoral Divisions(s): All Divisions

13 Risk Management Update 2020/21 (Pages 301 - 310)

Report of the County Treasurer (CT/20/93), Attached

Electoral Divisions(s): All Divisions

14 Future Meetings

Please use link below for County Council Calendar of Meetings:

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Members are reminded that Part II Reports contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). They need to be disposed of carefully and should be returned to the Democratic Services Officer at the conclusion of the meeting for disposal.

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Induction Loop available

CT/20/103
Audit Committee
26th November 2020

EXTERNAL AUDIT – Update on the FRC report on local audit
Report provided by Grant Thornton via the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the attached letter:

1. Grant Thornton, the Authority's external auditor has provided the attached update (letter) regarding the report from the Financial Reporting Council on local audit.

Mary Davis
Electoral Divisions: All
Local Government Act 1972
List of Background Papers

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Our ref: DCC201920/JR/JM

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18 November 2020

Dear Mary

Grant Thornton update to audited bodies on the Financial Reporting Council's (FRC) report on local audit

Background to the report and FRC findings

On 30 October 2020, the FRC published its first annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of fifteen audit files, across eight audit firms, for the financial year 2018/19. A link to the report is here.

The FRC review covers the financial statements and Value for Money (VfM) work at major audits (broadly those with income or expenditure above £500m per annum). Non major audits have been reviewed by the Quality Assurance Department of the ICAEW (the QAD), and the results of these reviews are also summarised in the FRC report. This audit would fall into the definition of major local audit.

The FRC's key findings include the following:

- The standard of Value for Money work across all firms is high.
- The standard of non-major audit inspections completed by the QAD is also high.
- For the major audit inspections, firms need to improve the quality of their financial statements work. In particular, auditors need to demonstrate a greater degree of challenge and scepticism, especially around the critical judgements and assumptions in respect of complex estimates, including asset valuations, which the FRC states is important because it "*provides a measure of the governance and management of property assets and enables effective medium term property decisions to be made for the benefit of stakeholders.*"

The FRC reviewed six Grant Thornton files as part of its inspection, which was more than any other firm, due to the market share of our firm. The inspectors assessed one file as requiring limited improvements, and five of the six as requiring improvements. In each of the five cases where improvement was required, the FRC has highlighted the valuation of PPE as being the major area needing increased audit focus. No areas were assessed as 'significant improvements required'.

How we are responding to the FRC findings

The firm has responded in full to the FRC findings and our response has been published as part of the FRC report. The following are the key points to highlight for your attention:

- Grant Thornton are absolutely committed to audit quality and we welcome the review performed by the FRC (along with comparable reviews performed by the ICAEW, Audit Scotland and Audit Wales) on our work.

- The FRC reviewed six VFM files. We are delighted to note that none of these had any more than limited improvements. The review feedback which we received from the QAD was similarly impressive. These are excellent results, and we are proud of the work we have delivered. Like Sir Tony Redmond, we believe that strong VfM work is at the heart of good local audit. We take VfM work seriously, invest time and resources in getting it right, and are not afraid to give difficult messages. In the last year alone, we have issued two Reports in the Public Interest at a major audit, as well as numerous Statutory Recommendations and Adverse VfM Conclusions. The inspection results, which the FRC have not included in this element of their report, illustrate how strong we are at VfM. With the new Code coming into effect for 2020/21, we have already updated and revised our approach, and will be training all our people in the new approach in the autumn.
- In terms of our work on the financial statements inspected by the FRC at major local audits, we recognise that we need to make improvements and are investing heavily to do so. We are also very mindful, when performing our work, that local authority auditors have different roles and responsibilities to commercial auditors, and that users of the local authority financial statements have different priorities from corporate shareholders.
- As regards our work on asset valuations, we are aware that the sector has raised the over-auditing of Property, Plant and Equipment (PPE) as a concern, as highlighted by Sir Tony Redmond. The FRC has given its view as our formal regulator, and we are required to abide by this. We therefore take those findings very seriously. Indeed, we have already undertaken extensive work over the past eighteen months to respond to previous comments made by the FRC and to implement our Quality Investment Plan in 2019, with a further update in 2020. This includes the fundamental reengineering of our approach to the audit of PPE, the increased use of auditor's experts for valuations, and an enhanced programme of training, guidance and support for our teams, all of which the FRC have been fully briefed on. It was not possible to have all of these changes fully in place for the 2018/19 financial year but arrangements are now in place for 2019/20. We will continue to drive further improvement as part of our ongoing commitment to quality and to address the FRC findings, which will require further audit work and challenge in this area.

Notwithstanding the above, we note the comments of Sir Tony Redmond in his recent inspection that where statutory adjustments apply, then '*these valuations have no immediate impact on the cost of delivering services or on the financial resilience of a local authority*.' We will work with CIPFA to help it develop alternative ways that local authority accounts can be presented.

Excluding PPE related findings, there were five other areas in which key findings were identified across six financial statements reviews at major local audited bodies. The FRC has also highlighted EQCR, fraud risk factors and completeness of expenditure as its other key findings.

Completeness and accuracy of expenditure was raised by the FRC on two audits and fraud risks raised on three audits. A common issue in each case was that the auditor needed to evidence better their risk assessment and conclusions. In respect of fraud, the FRC highlighted the need to improve on the sufficiency of testing including sample sizes. For expenditure, the FRC highlighted the need to disaggregate debits and credits and ensure the completeness of the populations. We are addressing all these points in our ongoing training.

We will continue to develop and improve our audit approach and provide appropriate training for the other areas identified by the FRC in this year's inspections. We currently apply Root Cause analysis to all internal and external files that require significant improvement. We will ensure that we respond to any underlying issues in a systematic manner, through our Quality Investment Plan. We will also undertake a Root Cause review on all of our ICAEW reviews. These results were excellent, with 6 out of 7 files assessed as requiring no or limited improvements. We will be keen to capture the learning from these including what went well and how we can build on this further.

Conclusions

The Financial Reporting Council inspected the 2017-18 audit of Devon County Council under contract from PSAA, two years ago, and we were satisfied with the outcome of this review. Recommendations arose from this review in relation to PPE valuations and have been built into subsequent audits of this Council in response to these findings.

Quality continues to be at the forefront of our agenda. We are proud of the work we have delivered on VfM and our QAD findings at non-major bodies but will look to build on our track record for VFM work with the introduction of the new NAO Code. In terms of the financial statements' inspection findings at major local audits, we will focus on driving through the changes which we consider are most fundamental to deliver better audit quality. We take the findings of inspectorates seriously, and the further investments we are making, including around additional work on PPE valuation, are an indicator of that. You will have already seen the results of this in 2019/20 and should notice further challenge, scepticism and even stronger audit quality as we undertake our 2020/21 audit.

Yours sincerely

Grant Thornton UK LLP.

Grant Thornton UK LLP

Audit Committee
26 November 2020

2019/20 Audit Findings Report for Devon Pension Fund CT/20/94
Report provided by Grant Thornton via the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the attached 2019/20 Audit Findings Report for the Devon Pension Fund

1. The attached report, provided by the Council's External Auditors (Grant Thornton), sets out the findings arising from the audit of the Pension Fund's financial statements for 2019/20.

2. It describes the work that the external auditors have undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee in February 2020, and also the subsequent addendum to the plan issued in April 2020 which reflected the additional risks associated with Covid-19.

Mary Davis
Electoral Divisions: All
Local Government Act 1972
List of Background Papers

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Background Paper: None

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for Devon Pension Fund

Year ended 31 March 2020

18 November 2020

DRAFT

Contents

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Your key Grant Thornton team members are:

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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 expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Fund focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. Our experience of working with the pensions finance team has demonstrated that while operations continue, these are inevitably taking more time to complete that in a normal year. Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team. We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. However, the remote working has impacted on delivery and additional resources have been necessary on both sides to in order to complete the work in accordance with the new extended reporting timetable.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

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

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

We commenced our post-statements remote audit on 1 July 2020 and as at 13 November 2020 our audit is almost complete. Our findings are summarised on pages 5 to 14.

Based on our work undertaken to date, we have identified no material errors or adjustments to the financial statements.

Audit adjustments are detailed in Appendix B.

The draft financial statements were presented for audit in accordance with the agreed timetable on 1 July 2020. The accounts were supported by good quality working papers and we generally received prompt responses to our queries.

Subject to completing our remaining audit procedures set out below, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020, as detailed in Appendix D.

The following are the key areas are outstanding:

- enquiries regarding a deficit payment made to the fund;
- completion of investment testing for level 1 and level 2 investments;
- agreement with management of the extent of the material property uncertainty;
- receipt of management representation letter;
- review of the Pension Fund Annual Report;
- review of the final set of financial statements; and
- issuing IAS 19 assurances to other auditors (see pages 15 and 16).

We have also raised recommendations for management as a result of our audit work in Appendix A.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the asset valuation material uncertainties with the Pension Fund’s property investments that are disclosed within its financial statements. See page 12.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- an evaluation of the Pension Fund's internal control environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our original audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. As a result we identified a new significant Covid-19 related financial statement risk. We have also reduced our materiality level since planning to reflect the reduction in the value of net assets at year end. The changes have focused on understanding what arrangements the fund has put in place to produce materially accurate financial statements and to demonstrate the impact on going concern assessment.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020, as detailed in Appendix E.

These outstanding items are recorded on page 4 of this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been revised to reflect the fall in net assets at year end. We have kept the benchmarks used consistent with that at planning, as we believe these remain appropriate at the year end.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	£40.1m (£43m)	We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2020.
Performance materiality	£30m (£32m)	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable.
Trivial matters	£2m (£2m)	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit Committee as 'Those Charged with Governance'.

Significant audit risks

Risks identified in our Audit Plan

Covid–19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may have impacted on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will have increased the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates;
- for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions;
- whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our materiality calculations and audit approach;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of the impact of Covid-19 upon forecast cashflows;
- evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure;
- evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations; and
- discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years.

The Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and will refer to this in our audit opinion as an 'emphasis of matter'. Our opinion is not qualified in this respect. See also page 12.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there was a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption could be rebutted if the auditor concluded that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there was little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition were very limited • the culture and ethical frameworks of local authorities, including Devon Pension Fund, meant that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for Devon Pension Fund.
Management override of controls Under ISA (UK) 240 there was a non-rebuttable presumed risk that the risk of management over-ride of controls was present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. There are no matters to report based on the work undertaken.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Level 3 Investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represented a significant estimate by management in the financial statements due to the size of the numbers involved (£158 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk.	We: • evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • independently requested year-end confirmations from investment managers; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period; • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and • where available reviewed investment manager service auditor reports on design effectiveness of internal controls. Our work in this area is complete; there are no issues we wish to report to the Audit Committee.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Actuarial Present Value of Promised Retirement Benefits The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits was not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • tested the consistency of disclosures with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Please see page 10 (overleaf) for our work in this area. Our work in this area is complete; there are no issues we wish to report to the Audit Committee.

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Significant audit risks

Risks identified in our Audit Plan	Auditor commentary	Assessment

Actuarial Present Value of Promised Retirement Benefits

The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.

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As stated on page 9, we used PwC as our auditor's expert to assess the actuary and the assumptions made by them.

The table below summarises where Devon Pension Fund falls in the acceptable ranges set by PwC:

Assumption	Actuary Value	PwC range	Assessment
Duration of liabilities	21 years	15 to 22 years	● (Green)
Discount rate	2.35%	2.35%	● (Green)
RPI Inflation	2.7%	2.65% to 2.80%	● (Green)
CPI Inflation and Pension increase rate	1.9%	1.85% to 1.95%	● (Green)
Salary growth	2.9%	2.9% (assumes 1% above CPI)	● (Green)
Life expectancy – Males at 65 (current pensioners)	22.9 years	21.4 to 23.3 years	● (Green)
Life expectancy – Females at 65 (current pensioners)	24.1 years	23.7 to 24.7 years	● (Green)
Life expectancy – Males at 65 (future pensioners)	24.3 years	22.8 to 24.7 years	● (Green)
Life expectancy – Females at 65 (future pensioners)	25.5 years	25.2 to 26.2 years	● (Green)

Assessment: ● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process The County Treasurer, as s151 officer, has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements. Management have confirmed that: • no decision has been made to wind up the Pension Fund and no events have occurred that would trigger a wind-up; • they have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue; and • no material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund’s ability to continue as a going concern exist that require disclosure.	Chapter 6, Annex 6.5 of the CIPFA Code on the “Presentation of Financial Statements for Pension Funds” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2019/20 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future”. For defined benefit schemes the Pension SORP gives further guidance in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority. Management set out their ‘going concern considerations’ as part of their response to our ‘informing the audit risk assessment’ shared with the Audit Committee in July 2020. We have identified that: • the fund is a statutory pension provider and therefore cannot legally close; • the actuary has set contribution rates for all employers up to 2022/23, this re-affirms that the fund intends to continue as a going concern; and • the fund also undertakes monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval of the financial statements. This shows a positive cash balance is maintained throughout 2020/21 and into the next financial year. In addition: • our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption; • as at the 2019 actuarial valuation, the fund showed an increase in the funding level; • in any given year contributions are typically in line with benefit payments made; and • the fund has significant assets that are readily liquidated should additional cash be required. As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Impact of Covid-19 on asset valuations at year end. Given the timing of Covid-19 in relation to the year end of the 31 March 2020, we identified that there would be volatility in both financial and property markets that would increase the uncertainty of assumptions applied by management to asset valuation and the reliability of the evidence we can obtain to corroborate management estimates.	The fund holds £373m in pooled property investments and £215m of private infrastructure and debt funds at 31 March 2020. Uncertainty regarding the valuation of these investments at the year end has been disclosed in the Pension Fund's financial statements.	Some investments are quoted and officers have used 31 March 2020 valuations within the financial statements which can therefore take into account the impact of Covid-19. We are working with officers to review valuation reports to assess the extent to which there is a material uncertainty with these investments.
McCloud The pension liability disclosed in the draft financial statements (Note 21) included an allowance for the implications of the McCloud ruling.	Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020. The Pension Fund's actuary included a full allowance for the McCloud ruling and management do not consider the likely fall to be material.	Our expectation was that there would be a slight fall in the liability. In our view the Government's consultation on amendments to the LGPS, following the McCloud judgement, is a non-adjusting post balance sheet event and we concur with management's view not to adjust the financial statements based on a revised valuation. Audited bodies should consider whether disclosure is necessary in line with the requirements of IAS 10 (for material non-adjusting events) and disclose the nature of the event and either an estimate of its financial effect, or a statement that such an estimate cannot be made. Again we concur with management's view that this restitution is not likely to be material, given the full liability is £55m.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in pooled investments that in total are valued on the net asset statement as at 31 March 2020 at £315m. These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.	As outlined in our testing of the valuation of level 3 investments (see page 8) we have: • assessed management's experts, reviewing their competence, expertise and objectivity where appropriate; • considered the valuation techniques used against industry practice; and • reviewed the adequacy of disclosure of the estimate in the financial statements. Our work in this area is complete; there are no issues we wish to report to the Audit Committee.	Green
Level 2 investment	The Pension Fund investments in level 2 investments totalled on the balance sheet as at 31 March 2020 at £2,873m. The investments are not directly traded on an open exchange / market and the valuation of the investment is subjective, although is often derived from investments in underlying quoted equities and so is not as subjective as a Level 3 investment. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.	Similar to our approach for level 3 investments outlined above, we have: • assessed management's experts, reviewing their competence, expertise and objectivity where appropriate; • considered the valuation techniques used against industry practice; and • reviewed the adequacy of disclosure of estimate in the financial statements. As noted on page 4, our work is this area has yet to be finalised.	

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers and other financial institutions that work with the Fund. This permission was granted and the requests were sent and all were ultimately returned with positive confirmation. Please note that we are still finalising our work on the Pension Fund's investments. Obtaining suitable external confirmations from fund managers remains a time consuming process, with it rare that information requested is returned in full at the first request.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. The Pension Fund Annual Report is not required to be published until December 2020 and therefore this work has not yet commenced.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund and the following non-audit service was identified. We set out the threats to our independence and safeguards that have been applied to mitigate these. Both Public Sector Audit Appointments Ltd (PSAA), in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to undertake this work.

	Fees £	Threats identified	Safeguards
Audit related	£10,000	Self review	This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to form an opinion on as part of their opinion on the financial statements of the admitted body.
		Management	The scope of the work does not included making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.
Non-audit related	None.		

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Audit Related Services Fees

In addition to the audit fees we set out in Appendix C our final proposed fees for audit related services provided during the course of our audit are described below.

Audit related	£	Description
IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of fourteen other auditors who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond. We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officer has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.	10,000	The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year. As in 2018/19, we are proposing to recover the cost of this extra work through an additional invoice to Devon Pension Fund and it will again be for the Pension Fund to determine any appropriate recharges. Working this way is the most effective option for those admitted bodies. However, before we invoice the Pension Fund, we will be seeking the agreement from those admitted bodies regarding their preferred way of dealing with this. For 2019/20 IAS 19 letters of assurance are required for the following admitted bodies of Devon Pension Fund: • Dartmoor National Park • Devon and Cornwall Police • Devon and Somerset Fire • Devon County Council • East Devon District Council • Exeter City Council • Mid Devon District Council • North Devon District Council • Plymouth City Council • South Hams District Council • Teignbridge District Council • Torbay Council • Torridge District Council • West Devon District Council Our estimate is that the fee for this will be £3,000 plus an additional £500 for each body which requests a letter of assurance.

Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed this recommendation with management and we will report on progress on this recommendation during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Amber	**Critical judgements** The financial statements set out a number of judgements which management consider are critical when determining how to apply the accounting policies of the Pension Fund. Our view is that not all of the matters disclosed are 'critical' and also that the actual judgement applied is not clear.	We recommended that the Pension Fund reviews the critical judgements disclosed within the financial statements to ensure that they are (a) critical and that (b) the judgement applied is clearly set out. **Management response** Agreed.

Risk rating

- High priority (red)
- Medium priority (amber)
- Low priority (green)

Follow up of prior year recommendation

We identified the following issue in the audit of Devon Pension Fund's 2018/19 financial statements, which resulted in one recommendation being included in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Critical judgements** The financial statements set out a number of judgements which management consider are critical when determining how to apply the accounting policies of the Pension Fund. Our view is that not all of the matters disclosed are 'critical' and also that the actual judgement applied is not clear. We recommended Devon Pension Fund review the critical judgements disclosed within the financial statements to ensure that they are (a) critical and that (b) the judgement applied is clearly set out.	The disclosures are unchanged from the 2018/19 financial statements. Typically, these disclosures cover significant issues in applying accounting policies where management has had to exercise judgement in situations where a different judgement might have led to a materially different accounting treatment. Disclosures need to identify the specific judgements that management has made in a manner that enables the reader to understand their impact. As noted on page 17, we have repeated this recommendation in 2019/20.

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Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Net Asset Statement£' 000	Impact on total net assets £'000
None identified to date.			
Overall impact	**£0**	**£0**	**£0**

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Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
None identified to date.			

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
None identified to date.				
Overall impact	**£0**	**£0**	**£0**	

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Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Fees

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that any proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Fees

We confirm below our final fees charged for the audit. The amounts reported are subject to final review at the conclusion of our work.

Audit fees	Fee as per audit plan	Proposed fee (subject to approval)
Pension Fund	£26,274	30,215
Valuation of derivatives	0	1,000
Local factors	0	TBC
Total audit fees (excluding VAT)	**£26,274**	**TBC**

The Audit Plan presented in February 2020 included £4,250 in addition to the scale fee (£22,024) to take account of the additional scepticism required on the audit and the raising of the bar by our regulator.

The proposed fee, which is subject to approval by PSAA, includes an additional allowance of 15% for the factors related to Covid-19, as outlined on the previous page.

The fees per the financial statements (note 8c) show the audit fee as £24,105 and this is:

Scale fee for the year	22,024
Add: Additional audit fees re previous year (McCloud) (approved by PSAA)	1,500
Add: Timing difference of IAS 19 fees from 2018/19 reimbursed by one admitted body	581
Total	**£24,105**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services IAS 19 Assurances (see pages 15 and 16)	10,000	TBC
Non- Audit Related Services	nil	nil
Total non- audit fees (excluding VAT)	**£10,000**	**TBC**

Audit opinion

We anticipate we will provide the Devon Pension Fund with an unmodified audit report which will include an 'emphasis of matter' regarding the valuation of property investments.

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Audit opinion

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Audit opinion

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Audit Committee
26 November 2020

2019/20 Audit Findings Report for Devon County Council CT/20/95
Report provided by Grant Thornton via the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the attached 2019/20 Audit Findings Report for Devon County Council.

1. The attached report, provided by the Council's External Auditors (Grant Thornton), sets out the findings arising from the audit of the County Council's financial statements and the work undertaken in relation to the value for money conclusion for 2019/20.

2. It describes the work that the external auditors have undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee in February 2020, and also the subsequent addendum to the plan issued in April 2020 which reflected the additional risks associated with Covid-19.

Mary Davis
Electoral Divisions: All
Local Government Act 1972
List of Background Papers

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Background Paper: None

DRAFT

Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for Devon County Council

Year ended 31 March 2020

18 November 2020

Contents

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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 expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. Our experience of working with the finance function has demonstrated that while functions continue to operate, these are inevitably taking more time to complete than in a normal year. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020 having previously discussed this issue with Officers. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VFM approach. Further detail is set out on page 7 of this report. Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team. We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. However, inevitably, the remote working has impacted on delivery and additional resources have been necessary on both sides to in order to complete the work in accordance with the new extended reporting timetable.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We commenced our post-statements remote audit in August and, as at 13 November 2020, our audit is well advanced. Page 6 sets out the key areas where our work is ongoing. Our work to date has focused on the significant risks thus minimising the risk of additional significant issues arising between now and audit sign off. Our findings to date are summarised on pages 6 to 19. Our work continues but, to date, we have identified no material errors or adjustments to the financial statements. We will provide a verbal update to the Audit Committee on our progress on 26 November 2020. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of the recommendations from the prior year's audit are detailed in Appendix B. The draft financial statements were presented for audit in accordance with the agreed timetable of 1 August 2020. The statements were supported by good quality working papers and we received prompt responses to our queries, given the circumstances. However, this year we did encounter difficulties with agreeing the Council's financial statements to its general ledger and this work took longer than was anticipated. Subject to completing our remaining audit procedures set out on page 6, receiving responses to our outstanding queries and having regard to any further national guidance, our anticipated audit report opinion will be unqualified and will include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings valuations and also the County Council's share of the property assets held by the Devon Pension Fund.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Devon County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the serious failings identified by Ofsted in January 2020 during their inspection of Children's Social Care Services and which resulted in a judgement of 'inadequate' for overall effectiveness. We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to Covid-19. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 20 to 26.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work in the following areas: • Whole of Government Accounts return; and • Opinion on the consistency of the Pension Fund financial statements with the Pension Fund Annual Report.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with Management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal control environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We altered our audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. Further details on these changes are given on page 7.

Conclusion

Our audit of your financial statements is in progress and subject to the work being completed to our satisfaction, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020.

The major outstanding items include:

- review of a sample of land and buildings revaluations – see pages 9 and 13 for further information;
- completion of income and expenditure sample testing and balance sheet sample testing; (note that we have selected our samples in all areas we expect to test and this work is currently underway);
- finalisation of the testing of the journals deemed to be of a higher risk;
- completion of work on borrowings and investments (we are awaiting third party confirmations in this area);
- receipt of assurances from the Pension Fund auditor based on the work they have undertaken;
- assessment of accounting estimates, critical judgements applied made by management and any changes in accounting policies, estimates or significant unusual transactions; and
- review of the Pension Fund Annual Report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Amount	Qualitative factors considered
Materiality for the financial statements	£16.5m	Equates to 1.5% of the prior year gross expenditure for the year.
Performance materiality	£12.4m	Equates to 75% of materiality figure
Trivial matters	£0.8m	Equates to 5% of materiality figure
Senior Officer Remuneration	£20k	This is a lower to reflect the interest in this disclosure.

Significant audit risks

Risks identified in our Audit Plan

Covid– 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. No changes were made to materiality levels previously reported.
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

The Council responded well to the challenge of remote working and was able to produce draft financial statements on 1 August 2020. This was in accordance with the agreed timetable and was ahead of the national deadline (31 August 2020), although it was two months later than in the previous year.

The Council identified a material uncertainty in relation to land and building valuations and disclosed this within its draft financial statements.

The Council has since extended this disclosure to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Devon Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation.

We will refer to both of these material uncertainties in our audit opinion.

The financial challenges into the medium term have also increased due to the lost income, additional costs and the uncertainty of future Government funding in respect of Covid-19.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, when producing our audit plan we determined that the risk of fraud arising from revenue recognition could be rebutted because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable. We therefore did not consider this to be a significant risk for Devon County Council. We have reconsidered this as part of our audit work on the financial statements and no new information has come to light to change our original assessment.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • undertaken testing to ensure the completeness of the journals listing; and • analysed the journals listing and determined the criteria for selecting high risk unusual journals. Our work on the testing of the journals selected is still in progress. We have still to finalise our work on accounting estimates, critical judgements applied made by management and any changes in accounting policies, estimates or significant unusual transactions.

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Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Authority revalues its land and buildings on a rolling five-yearly basis.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.4 billion) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out;
- engaged our own valuer to assess the instructions to the Council's valuer, their reports and the assumptions that underpinned the valuations; we have reviewed their feedback and are satisfied that there are no issues that would impact on our strategy or that we need to report to Those Charged with Governance;
- reconciled the valuation report to the financial statements; and
- tested a sample of revaluations made during the year to see if they had been input correctly into the Council's asset register;

At the time of writing this report our work on Property, Plant and Equipment remains in progress. We will:

- challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and will review the evidence underpinning a sample of revaluations; and
- evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and building valuations at the year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in their final valuation report.

Officers reflected this uncertainty in the financial statements in the section 'assumptions made about the future and other major sources of estimation uncertainty'. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

Please see page 13 for additional commentary on the work undertaken in this area.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represented a significant estimate in the financial statements. The pension fund net liability was considered a significant estimate due to the size of the numbers involved (£1 billion in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We are still awaiting assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We expect to receive its assurance shortly. Please also see pages 14 and 15 of this report for further work undertaken on the Pension Fund liability.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Incomplete or inaccurate financial information transferred to the new payroll system In 2019/20, the Authority implemented a new payroll system. When implementing a new significant financial system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There was also a risk over the completeness and accuracy of the data transfer from the previous payroll system. We therefore identified the completeness and accuracy of the transfer of financial information to the new payroll system as a risk.	We have: • understood the procedures used by the Council to ensure the effectiveness of the new payroll system; • assessed the controls the Council put in place to ensure the accurate transfer of data from the previous system and reviewed the work undertaken by the Council; • gained an understanding of the Council's system for accounting for payroll expenditure; • reconciled payroll expenditure reported in the financial statements to total expenditure recorded in the payroll system; and • performed substantive analytical procedures on the payroll transactions undertaken in 2018/19 and 2019/20, which, in part, compared the outputs from the 'new' system to that of the 'old' system. Based on the work undertaken, we are satisfied that the Council adopted an effective process for the transfer of the financial information to the new payroll system and there are no matters that we wish to report to the Audit Committee. However. Internal Audit noted a number of issues in their initial review of the new payroll system. Although we are satisfied that these issues would not have a material impact on the financial statements, it is important for the Council to ensure that these recommendations have been implemented. See the action plan in Appendix A.
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted) The public sector has implemented this standard from 1 April 2020. It replaced IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	In order to reduce the pressure across the whole of the Public Sector as a result of the outbreak of Covid-19, the implementation of IFRS 16 has been delayed by a year to 1 April 2021. However, audited bodies still need to include disclosure in their 2019/20 financial statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. Officers have included narrative around the implementation within the note entitled 'accounting standards that have been issued but have not yet been adopted'. In our view, appropriate disclosure has been included within the Council's financial statements.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Dedicated Schools Grant The Council had a cumulative overspend of £19.8m as 31 March 2020 as its expenditure exceeded the funding provided. As noted on page 6, the materiality for the financial statements is £16.5m and so this overspend is material.	The Council has offset the overspend on its Dedicated Schools Grant (DSG) against the other schools balances by setting up a deficit reserve. The Council has included the following disclosure within its financial statements: *"There is an overspend of £19.8 millions in the High Needs Block of the Dedicated Schools Grant which has been carried forward as a negative ringfenced balance in the balance sheet."* There are other references to this overspend within the financial statements and, in our view, the County Council has been transparent in the way in which it has reported this matter.	We are of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund. This is because expenditure is required to be recognised in the year in which it is incurred and forms part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. The Schools & Early Years Finance Regulations 2020 do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a 'statutory override' creating an unusable reserve) in 2019/20. However, we are aware that discussions are in progress at a national level and that a public consultation is planned on the treatment of any overspends on the DSG going forward. Whilst our view on the accounting treatment differs to that of the Council, we are satisfied that Devon County Council has made appropriate disclosures within its financial statements and that the disclosure of this balance within the note covering the General Fund Balances, Schools and Earmarked Reserves is not misleading to the readers of the financial statements and does not distort the Council's reported financial position. See also page 23 of this work for our commentary of the impact of this overspend on the Council's financial standing.

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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £716m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings which are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engages an external valuer to complete the valuation of properties on a five yearly cycle, although in practice the key assets are revalued more frequently than the maximum permissible cycle of five years. In 2019/20 £595m of assets were revalued which is approximately 83% of the total gross book value of the Council's land and buildings. In line with RICS guidance, the Council's valuers disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in its financial statements.	As noted on page 9, our work on Property, Plant and Equipment remains in progress. We have completed our assessment of management's expert, using our own valuer to support us in this work. The remaining work to be completed is: • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and review the evidence underpinning a sample of revaluations; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.	

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,050m	The Council's net pension liability at 31 March 2020 is £1,050m (PY £1,050m) comprising the Devon Pension Fund benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £51m net actuarial gain during 2019/20.	We have carried out the following work in relation to this estimate: • assessed management's expert, Barnett Waddingham, to be competent, capable and objective; • performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to note; • gained assurance over the reasonableness of the Council's share of LGPS pension assets; • reviewed the adequacy of disclosure of the estimate in the draft financial statements; and • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability. The Pension Fund's financial statements disclose a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Devon County Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion will refer to these disclosures as an 'emphasis of matter'. Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020. Devon County Council's actuaries included an estimate for the costs of the McCloud judgement at 31 March 2020 of £13.9m, which is not material. The Council is of the view that the liability cannot be materially misstated due to the above clarification. We concur with this view. As noted on page 6, we are awaiting assurances from the Pension Fund's auditors and we expect to receive these shortly.	Green

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,050m	The Council's net pension liability at 31 March 2020 is £1,050m (PY £1,050m) comprising the Devon Pension Fund benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £51m net actuarial gain during 2019/20.	We also used PwC as our auditor's expert to assess the actuary and the assumptions made by them. The table below summarises where Devon County Council fall in the acceptable ranges set by PwC: (see table below) Please also see page 10 of this report for further work undertaken on the Pension Fund liability.	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	(Green)
Pension increase rate	1.9%	1.85% to 1.95%	(Green)
Salary growth	2.9%	2.9% (assumes 1% above CPI)	(Green)
Life expectancy – Males at 65 (current pensioners)	22.9 years	21.4 to 23.3 years	(Green)
Life expectancy – Females at 65 (current pensioners)	24.1 years	23.7 to 24.7 years	(Green)
Life expectancy – Males at 65 (future pensioners)	24.3 years	22.8 to 24.7 years	(Green)
Life expectancy – Females at 65 (future pensioners)	25.5 years	25.2 to 26.2 years	(Green)

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Material uncertainties re property valuations	The Council identified a material uncertainty in relation to land and building valuations and disclosed this within its draft financial statements. The Council has since extended this disclosure to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Devon Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation.	We concur with this additional disclosure and will refer to this in our opinion as stated on page 4.

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Significant findings – going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern material uncertainty disclosures

2020 has been a challenging year due to the Covid-19 pandemic and officers have had to respond quickly to the impact that this has had on the operations and finances of the Council in a rapidly changing environment whilst, in the main, working remotely from colleagues and Members.

As noted on page 22 of this report, taking into account all the funding received, the Council is forecasting a shortfall associated with Covid-19 of approximately £4m. If further funding is not received, then any shortfall will have to be met from reserves.

Looking ahead to 2020/21, as at month four – and as reported to the Cabinet in September 2020 – the Council is forecasting an overspend of £4.5m for the year although this position is considered to be manageable. Despite this, pressures remain in the key demand-led areas such as Adult's and Children's Services.

While this is a challenging situation, we agree with management's judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council's adoption of the going concern assumption.

Going concern commentary	Auditor commentary
Management's assessment process Management produced as assessment of whether there was a material uncertainty about the Council's ability to continue as a going concern and this was considered by the Audit Committee in July 2020. Management's view was that there was no material uncertainty.	In making this assessment management had clearly considered the following factors: • the outturn for 2019/20, recognising that the position in 2020/21 would be influenced by what had happened in the prior financial year; • the level of reserves available to the County Council. At 31/3/20 The General Fund and Earmarked General Fund balance was £170m compared to the net cost of services of £650m. The position of Devon compared to its peers does not give any cause for concern in this respect; • cash currently available – at 31/3/20 the Council had cash and cash equivalents of £58m, with short term investments of £106m. • other comparative data – under the CIPFA Financial Resilience Indicators Devon County Council scored highest on the 'reserves sustainability measure'.
Concluding comments	Management's assessment was 'high level' and we sought additional assurances, particularly around cash flow forecasts. We agree with management's judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council's adoption of the going concern assumption.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Although the majority have been received, a small number have yet to be provided and we will complete alternative procedures in respect of these if necessary. The Pension Fund audit has not yet been completed. However, we expect the assurances from the Pension Fund auditor to be provided shortly.
Disclosures	Our work to date has not identified any material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	To date, all information and explanations requested from management has been provided. However, this year we did encounter difficulties with agreeing the Council's financial statements to its general ledger and this work took longer than was anticipated.

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Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our review of the Council's Annual Governance Statement identified that the most recent Ofsted Inspection (see page 26) had not been referred to and we suggested that the Annual Governance Statement was updated to reflect this weakness.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; • if we have applied any of our statutory powers or duties. See above re our observation on the Council's Annual Governance Statement.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not yet commenced as it needs to be informed by the audit of the Council's financial statements.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Devon County Council in the audit report, as detailed in Appendix E, due to the following: • whole of Government Accounts return; and • opinion on the consistency of the Pension Fund financial statements with the Pension Fund Annual Report. We plan to complete this work by the time we issue our audit opinion.

Value for Money

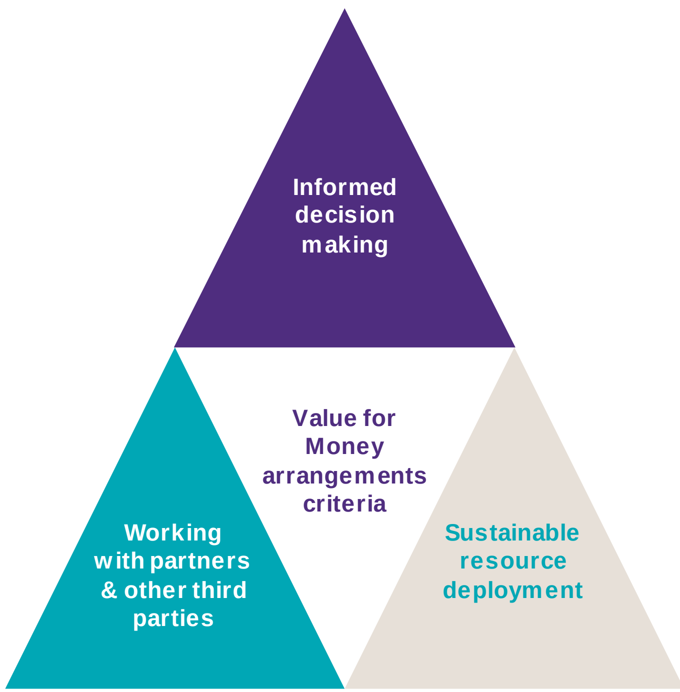
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 27 February 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

As noted in the addendum to our audit plan dated 28 April 2020, we have not identified any new VFM risks in relation to Covid-19 in 2019/20, given the date of the pandemic and its proximity to the Council's year end.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's budget for 2020/21, its medium term financial plan and the work the Council has done towards 'closing the gap' in future years, including any future reliance on reserves and the savings being delivered by the transformation programme 'doing what matters'; and
- the Ofsted inspection undertaken in 2019 and the actions taken by the Council to address the Ofsted and CQC findings in 2018/19.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 26.

Overall conclusion

In January 2020 an Ofsted inspection identified that there were serious failings in the Children's Social Care Services and rated the services overall as inadequate. Senior leaders where not aware of the failures to protect some of the most vulnerable children and young people from harm and the service to care leavers was assessed as inadequate.

This matter is evidence of weaknesses in proper arrangements and we intend to issue an 'except for conclusion' with regards to:

- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, including where relevant, business cases supporting significant investment decisions.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

Based on the findings arising from our work we have identified a number of recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk in our audit plan	**Financial resilience** Local Authorities are still experiencing significant financial challenges and the one-year settlement for 2020/21 (compared to the previous four year settlement) makes financial planning over the medium term difficult. For Devon County Council, the 2020/21 budget requires savings of £7.5m to be delivered and a net reduction in reserves of £3.4m in order to achieve a balanced budget. We will review the budget for 2020/21 and the Council's medium term financial plan and will assess any future reliance on reserves and the savings being delivered by the transformation programme 'doing what matters'.
Findings Page 58	**Covid-19** Since the issue of our Audit Plan the Council has been significantly affected by the Covid-19 pandemic. The impact began in late March so the effect on the VFM arrangements was limited in 2019/20, but we have considered the effect on the Council's medium term financial strategy and business continuity planning. In January 2020, the Council reviewed and updated its business continuity plans. Its approach already included topic-specific plans such as a flu pandemic and it has introduced a wide range of Covid-19 specific policies and guidance. Governance structures and decision making procedures have also been introduced to ensure effective and timely decisions could be made. As far as the Covid-19 spending is concerned, the Council received £22.5m from the Government in March 2020.Of this, £843,000 has been used to offset the costs incurred in 2019/20 the remaining £21.7m has been carried forward to 2020/21 where the remaining costs will be incurred. In 2020/21 the Council continues to receive financial support, the most significant of which is the Local Authority Covid Support Grant. Taking into account all the funding received, the Council is forecasting a shortfall associated with Covid-19 of approximately £4m. If further funding is not received then any shortfall will have to be met from reserves. **2019/20 Outturn** In 2019/20 the Council experienced significant budget pressures within Adults and Children's Services, which is consistent with both previous years and other upper tier and unitary councils. Despite these significant pressures, the draft financial statements show that the Council achieved a small underspend of £33,000 in the year. In 2019/20 the Council aimed to deliver savings of £13.4m, however it only delivered savings in the region of £8.6m, which is approximately two thirds of the original expectations. Adult Social Care and Commissioning, Highways, Infrastructure and Waste and Corporate services were the three areas recording the highest proportion of savings not achieved. The Council has maintained its general reserve balance of £14m and has increased its earmarked reserves by £8.8m to £120m.

Value for Money

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk in our audit plan	Financial resilience (cont'd)
Findings	**Dedicated Schools Grant (DSG)** However, whilst the Council has maintained its general reserve balance of £14m and has increased its earmarked reserves by £8.8m to £120m, it has a negative reserve for the Dedicated Schools Grant (DSG) SEND service of £19.8m at the year end. In 2018/19 there was an overspend of approximately £5.2m, of which £2.8m was taken to reserves and £2.4m carried forward to 2019/20. Looking ahead to 2020/21, this deficit is continuing, and the latest forecast is for the deficit to be £26.8m by 31 March 2021, giving a total forecast deficit of £46.6m. The Council is aware that an action plan is required and is in consultation with schools as to how this deficit could be reduced. The Council has not yet begun discussions with the Department for Education until a way forward has been agreed with the schools, but anticipate it might be able to begin these discussions in December 2020. Urgent action is required to prevent the deficit increasing. **Medium Term Financial Strategy (MTFS)** The Council's Medium Term Financial Strategy and 2020/21 budget were agreed in February 2020. Due to the significant uncertainty the Council has decided not to amend its 2020/21 budget but is actively monitoring its financial position against its planned budget. 2021/22 and beyond will be reconsidered and updated later in the year to form part of the Council's budget setting processes in 2021. The Council will follow the same timetable as previous years. As at month four, and as reported to Cabinet in September 2020, the financial position has deteriorated slightly and the Council forecasts an overspend of £4.5m for the year. This overspend can be accommodated if the planned contribution to reserves is not made. The Council is again experiencing increased costs within Adult Care and Health Services, Children's Services and Highways, Infrastructure Development and Waste. The most significant being within Adult Care and Health Services and Children's Services due to increased demand and planned savings not being achievable due to Covid-19. 2020/21 remains a challenging year for the Council.

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Value for Money

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk in our audit plan	Financial resilience (cont'd)

Findings

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Savings required 2020/21 onwards

The MTFS agreed in February 2020 identified the following savings:

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Savings required	7,499	17,788	13,143	15,105
Savings identified	7,499	1,364	0	0
Savings to be found	0	16,424	13,143	15,105

The Council recognised at month two that the savings required in 2020/21 are at significant risk of delivery and anticipates that only £2.089m are deliverable. The majority (89%) of non-deliverable savings are within Adult Social Care and Commissioning. This position is unchanged as at month four.

The Council recognises that a large proportion of the budgeted savings are not achievable and this financial pressure is being covered by Covid-19 funding from the Government. Management action is being taken to address the overspend as Government funding is only expected for a finite period.

However, this lack of delivery will increase the pressure in 2021/22 as the savings required in that year are substantial and a significant proportion have yet to be identified.

Transformation 'doing what matters'

The Council continues to develop and test its approach in a number of high cost and high demand areas. Although aspects of the change have been delayed due to the Covid-19 pandemic, benefits such as cost avoidance and value have been identified from the programme, such as redesign of the SEND Transport Service and reduction in the cost of highways safety defects. These savings have not been quantified and have therefore not been included within the MTFS. In our view this is a prudent approach.

However, scaling and embedding the transformation remains a key challenge for the Council and has been delayed as a result of the Covid-19 pandemic, although prior to that progress was slower that originally envisaged.

Value for Money

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk in our audit plan	Financial resilience (cont'd)
Findings	Whist monitoring the transformation programme to maintain momentum and provide a strong focus on demonstrating outcomes and financial benefits should continue, the Council should also ensure that the transformation programme contributes to the savings required in 2021/22. This could be achieved by ensuring there is an agreed plan which includes savings targets which are incorporated in the medium term financial strategy
Conclusion	Although the Council faces significant financial uncertainty as a result of the Covid-19 pandemic, it has arrangements in place to carefully monitor and manage the spend and has sufficient reserves to ensure financial resilience in the short to medium term. In order to reduce the financial pressure going forward it needs to begin considering its savings plans for 2021/22 and beyond. We consider that adequate arrangements are in place to ensure financial resilience.

Value for Money

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk in our audit plan	In 2018/19, Ofsted and the Care Quality Commission (CQC) carried out a Joint Local Area Inspection and Ofsted undertook a two day focussed visit. Both visits identified the need for action by the Council. As part of our work in 2019/20 we will follow up on actions taken by the County Council to address the Ofsted and CQC findings. We will also be alert to any further inspection reports that may be issued in 2020.
Findings	**Ofsted inspection** In January 2020, an Ofsted inspection of Children's Social Care Services was undertaken. This identified that there are serious failings in the services provided to children and reached the following judgements: • The impact of leaders on social work practice with children and families – Inadequate • The experiences and progress who need help and protection – Requires improvement to be good • The experience and progress of children in care and care leavers – Inadequate • Overall effectiveness – Inadequate As a result a Statutory Direction under Section 497A(4B) of the Education Act 1996 was issued. This inspection supersedes the focused visits undertaken in May 2019. The inspection report has been presented to virtual meetings for Scrutiny and to the Children's Services Overview Group. Actions are underway and arrangements have been adapted due to the Covid-19 pandemic. In respect of the joint inspection for children with SEND requirements, the Council amended its Statement of Action which was accepted by Ofsted. The Council has been making progress although the requirements for children and young people with autism remain a challenge. A re-inspection is anticipated but this has been delayed due to Covid-19 disruption.
Conclusion	Due to the findings determined by Ofsted from its inspection, we have concluded that Council does not have adequate arrangements in place for the Children's Social Care Services. Senior leaders where not aware of the failures to protect some of the most vulnerable children and young people from harm and the service to care leavers was assessed as inadequate. We are therefore proposing an 'except for' VFM conclusion is this respect.

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Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit service was identified.

We set out below the threats to our independence and the safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return (2019/20 return)	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £98,916 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is typically done after the audit fieldwork has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. In 2019/20, due to the revised audit timetable, we are using a separate team to undertake this work.

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Action plan

We have identified six recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
(Amber)	We encountered difficulties with agreeing the Council's financial statements to its general ledger and this work took longer than was anticipated.	The Council should ensure that the evidence to agree the financial statements to the ledger is available at the start of the audit. **Management response** The issue is more complex than the recommendation indicates. Comprehensive evidence that the financial statements agreed to the Ledger was available this year as in previous years prior to the start of the Audit. The difficulties the auditors encountered were, management believe, in relation to the use of their own software to try and recreate the County Council's accounts from over 6 million transactions. The County Council believes there is learning required for both the County Council and Grant Thornton on this issue and will continue to work with audit colleagues to make this more effective in future years.
(Amber)	Internal Audit noted a number of issues in their initial review of the payroll system. We are satisfied that these would not have a material impact on the Council's financial statements.	The Council should ensure that Internal Audit's recommendations regarding the new payroll system have been implemented. **Management response** Internal audit recommendations have been agreed and implemented in all but one case. The exception relates to online starters forms: we are working with the software provider to provide a secure solution as part of the recruitment module currently being implemented. In the meantime, we have additional controls in place to mitigate the risk.
(Red)	The Dedicated Schools Grant (DSG) was in deficit at the year end (£19.8m) and this position is worsening in 2020/21.	The Council should urgently develop a recovery plan for the DSG and agree this with the schools' forum and the Department for Education. **Management response** A recovery plan for the DSG is already in development, in line with the new DfE template, and will be forwarded to the DfE and schools forum in due course.

Risk rating

- High priority (red)
- Medium priority (amber)
- Low priority (green)

Action plan

Assessment	Issue and risk	Recommendations
(Red)	The Ofsted inspection identified that Children's Social Care Services were inadequate overall.	The Council's action plan to address the issues identified by Ofsted should be reported to Members. **Management response** On Ofsted the action plan has been reported to members and regular progress updates are provided by the Improvement Director. The Independent Chair of the Improvement Partnership attended the November Children's Overview and Scrutiny to provide further independent assurances
(Amber)	The Council faces a significant financial challenge in 2021/22 as savings for that are yet to be fully identified. This position is compounded by the impact that Covid-19 has had on the achievement of savings planned for 2020/21 and the fact that management focus has been diverted to deal with the impacts of the pandemic on service delivery.	The Council should focus on the identification its 2021/22 savings plans to ensure that these can be actioned promptly in 2021. **Management response** The Council has a good track record of developing savings plans and delivering a balanced budget. Work on the 2021/22 budget is well advanced and the Draft Target budget will be taken to Cabinet in December in line with the Budget timetable. The development of a longer term Savings Programme is made significantly harder by the lack of information from Central Government on its funding plans for Local Government over the short and medium term.
(Amber)	The purpose of the transformation programme is not universally understood across the Council. It is not contributing to planned savings within the MTFS and has yet to deliver quantifiable savings.	The purpose of the transformation programme should be reaffirmed and an agreed plan developed for 2021/22 onwards. In order to ensure service improvements and cost avoidance schemes are translated into cashable savings the plan should include agreed areas of focus and savings targets which can be incorporated into the MTFS. **Management response** Organisational Change and Finance will be working together to provide high support and high challenge to the organisation to deliver service improvements in order to demonstrate and evidence better outcomes at lower cost. Previous work showed improvements in the efficiency and effectiveness within the areas of work supported and highlighted a wider scope of opportunity for the organisation as a whole.

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Risk rating

- High priority (red)
- Medium priority (amber)
- Low priority (green)

Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council's 2018/19 financial statements, which resulted in five recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Disclosure of estimates in the financial statements** The disclosures did not contain all of the estimates within the financial statements e.g. the valuation of land and buildings. We recommended that the Council should review its disclosure relating to estimates in 2019/20 to ensure that they are complete and only cover areas where there is a significant risk of a material adjustment being required in the previous year.	The disclosure related to estimation uncertainty, Note 5, were amended in 2018/19 to include the valuation of land and buildings. The Council also removed reference to provisions and debtors in that year on the grounds that it did not consider these estimates to be material. The disclosures in 2019/20 also include the material uncertainty regarding the valuations of the land and buildings owned by the County Council and for its share of the property-based investments held by the Devon Pension Fund.
✓	**Critical judgements applied regarding accounting policies** In our view, the disclosures were not all critical judgements that management had applied regarding the Council's accounting policies. We recommended that the Council should review its critical judgements in 2019/20 to ensure that they are appropriate and do have a material impact on the Council's accounts.	The Council has reduced the number of 'critical judgements' disclosed within its financial statements from eight to two. The narrative for those remaining 'critical judgements' has been improved considerably to provide greater information to the reader of the accounts regarding the judgement applied and the impact of this on the financial statements.

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Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council's 2018/19 financial statements, which resulted in five recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Progress against the transformation programme** The Council's transformation programme was still underway but had not delivered any savings to date nor was it expected to do so in 2019/20. We recommended that the Council should monitor progress against the transformation programme to ensure it is having the desired impact on both service delivery and financial savings to the Council and its key partners.	The Council continues to look for new ways to transform and improve the way that services are delivered which improve outcomes for service users and reduce costs. However, scaling up and embedding the approach across the Council remains a challenge and progress has been further impeded by the Covid-19 pandemic.
In progress	**Demand management** The Council had taken action to manage demand in adult's and children's services. We recommended that the Council should monitor the impact of the actions to manage the demand for adult's and children's services.	Managing demand remains a key challenge for the Council in both Adult's and Children's social care services. Both services have seen an increase in demand due to the Covid-19 pandemic, although the Council is actively monitoring demand both services are both working to reduce the demand.
No longer relevant	**Ofsted and CQC Findings** In 2018/19 Ofsted and the CQC carried out a Joint Local Area Inspection and Ofsted undertook a two day focussed visit. Both visits identified the need for action by the Council. We recommended that the Council should ensure: • that an adequate response is developed for the Joint Local Area Inspection findings; and • that progress against the Ofsted / CQC findings are monitored.	An adequate response was developed by the Council for the Joint Local Area Inspection and progress was monitored and reported to Members. However, a detailed inspection was undertaken by Ofsted as discussed earlier on page 26 and these findings supersede those reported previously.

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Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
None identified to date.			
Overall impact	**£0**	**£0**	**£0**

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Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure or misclassification	Detail	Adjusted
Material uncertainty – Pension Fund investments	The Council has extended its disclosures to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Devon Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation.	✓
Contingent liabilities	The Council deleted references to breaches of the data protection act to reflect the fact that the Information Commissioner's Office had decided to take no enforcement action and hence there was no possibility of a liability for the County Council.	✓
Annual Governance Statement	The Council updated its Annual Governance Statement to reflect the weaknesses identified by Ofsted	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
None identified to date.				
Overall impact	**£0**	**£0**	**£0**	

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Impact of prior year unadjusted misstatements

The table below provides details of the one adjustment identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
CCLA Investment The Council had an investment of £10m at 31 March 2019 in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA. The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.	There is no impact on the Comprehensive Income and Expenditure Statement or the Statement of Financial Position as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years. There is only an effect on the disclosures within the Council's financial instruments.			The investment was not material.
Overall impact	**£0**	**£0**	**£0**	

Fees

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our Audit Findings Report.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that any proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Fees

We confirm below our final fees charged for the audit and for the provision of non-audit services.

Audit fees	Fee as per audit plan	Proposed fee (subject to approval)
Council Audit	98,916	113,750
Total audit fees (excluding VAT)	**£98,916**	**£113,750**

The Audit Plan presented in February 2020 included £17,850 in addition to the scale fee set by Public Sector Audit Appointments Ltd (PSAA) to take account of the additional scepticism required on the audit and the raising of the bar by our regulator.

The proposed fee, which is subject to approval by PSAA, includes an additional allowance of 15% for the factors related to Covid-19, as outlined on the previous page.

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Non-audit fees for other services (see page 28)	Proposed fee	Final fee
Audit Related Services – Certification of Teachers' Pension Return	4,200	TBC
Total non-audit fees (excluding VAT)	**£4,200**	**£TBC**

Overleaf we reconcile the above figures to the disclosure in Note 30 of the Council's financial statements.

Fees

Below we reconcile the fees set out on the previous page to the disclosure in Note 30 of the Council's financial statements.

The amounts reported are subject to final review at the conclusion of our work

Area	Fee per page 36 of this report	Fee per Note 30 of financial statements
Scale Fee set by Public Sector Audit Appointments (PSAA)	81,066	81,066
Variation to the above agreed within Audit Plan (approved by PSAA)	17,850	
Additional allowance of 15% for the factors related to Covid-19	14,834	
Variation to 2018/19 audit fee reported in 201819 Audit Findings Report (approved by PSAA)		9,000
2017/18 objection fee (see below)		(5,352)
Pension Fund Assurance Letters (see below)		1,693
Total fees	**£113,750**	**£90,607**
Certification of Teachers' Pension Return	TBC	4,200

2017/18 Objection

In the 2019/19 financial statements, the Council included an estimate for the costs of dealing with an objection relating to 2017/18. The estimate was £10,000 whereas the actual fee was £4,648

Pension Fund Assurance Letters

We provide assurance to the auditors of fourteen other organisations who are admitted bodies of the pension scheme in respect of our work on the Pension Fund audit. We invoiced the Pension Fund for these assurance letters provided to the auditors and set this out in our Audit Findings Report for the Devon Pension Fund.

This amount relates to the proportion of that fee that was recharged by the Pension Fund to the County Council.

Audit opinion

We anticipate we will provide the Council with an audit report that will include an emphasis of matter in respect of the material uncertainty associated with the valuation of the Council's own land and buildings and also the Council's shared of the property investments held by the Devon Pension Fund.

Full text to be added here.

Audit opinion

Full text to be added here

Audit opinion

Full text to be added here

CT/20/96
Audit Committee
26th November 2020

Statement of Accounts & Annual Governance Statement 2019/20
Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

1. Recommendations – it is recommended that the Committee:

1.1. Approves the Letters of Management Representation for the Devon Pension Fund and the County Council;

1.2. Approves the Statement of Accounts for 2019/20;

1.3. Approves the Pension Fund Statement of Accounts for 2019/20;

1.4. Delegates authority to the Chair of the Committee (in consultation with the County Treasurer) to agree the final version of the Pension Fund Statement of Accounts, should the external auditor require amendments as a result of the matter to be discussed in Part 2 of this Committee meeting;

1.5. Approves the preparation of both the Statement of Accounts for the Pension Fund and County Council on a going concern basis; and

1.6. Approves the amended Annual Governance Statement.

2. Background

2.1. The purpose of this report is to ask Members to approve the Letters of Management Representation and the Statement of Accounts for 2019/20.

2.2. The Statement of Accounts has been prepared according to CIPFA's Code of Practice on Local Authority Accounting 2019/20. This year there have not been any significant changes to the Code.

2.3. As a result of the impact of Coronavirus, Parliament amended the deadlines in the Accounts and Audit Regulations for the 2019/20 accounts, putting back the publication deadline for the unaudited accounts to 31st August 2020 (31st May 2019) and the publication date for the audited accounts to 30th November 2020 (31st July 2019).

3. Key Messages – Pension Fund Accounts

3.1. The external auditor will be reporting the audit findings on the Pension Fund, both in Part 1 and Part 2 of this Committee meeting.

4. Key Messages – Authority's Accounts

4.1. The format of the Comprehensive Income and Expenditure Statement (CIES) reflects the Authority's current reporting segments in 2019/20 (consistent with the Authority's budget book and budget monitoring reports).

4.2. At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £111.2 millions. During the year earmarked reserves have increased by a net £8.8 millions to £120.0 millions. The reason for this movement is explained in the following table, where £7.5 million of the increase was budgeted for and the additional £1.3 million is the net position after business rate pooling gain and underspend on the public health grant of £4.1 millions are offset by spending of £2.8 millions against reserves:

	£000	£000
Budgeted contribution		7,500
Underspend on Public Health Ring-fenced Grant	1,686	
Business Rates Risk Reserve - Pooling Gain & additional grant	2,441	
		4,127
Spend on Transformation	(1,475)	
Spend from On Street Parking Reserve	(786)	
Spend from Climate Change Emergency Reserve	(54)	
Spend from Business Rates Pilot Reserve	(503)	
Spend from Budget Management Reserve	(20)	
		(2,838)
		8,789

4.3. In addition, the Authority holds a working General Fund balance of £14.79 millions at 31 March 2020, an increase of £33,000 during the year. Capital grants unapplied have reduced by just over £15 millions and capital receipts have decreased by £700,000.

4.4. For the first time, the authority now also holds a negative reserve. The underfunding of the Dedicated Schools Grant Special Educational Needs and Disabilities (SEND) service has resulted in £19.772 millions being held on the Balance Sheet (Note 9 of the Statement of Accounts). The creation of the negative reserve is in line with

Government requirements and, whilst recognising this is a national issue, it is nonetheless a worrying development for Local Government. It is unclear how Government intends to rectify the historic and projected future underfunding.

4.5. Parliament has directed that from 2020/21 for a period of three years, this negative reserve will be transferred to an unusable reserve. It is not clear what will happen after this three year period expires. This temporary accounting treatment does not address the fundamental issue that Government funding is not sufficient to cover the spending pressures of SEND.

4.6. The Authority has a negative Balance Sheet as at 31st March 2020 which means that the Authority's liabilities are £56 millions greater than its assets (£103 millions at 31st March 2019). Although it may appear that this is a concern it is not as the Pension Liability of just over £1,050 millions does not represent an immediate call on the Authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

4.7. No new borrowing has taken place this year with capital expenditure due to be met from borrowing being financed from internal resources.

4.8. The audit is still not complete and as a result our auditors may request further changes to the Statement of Accounts. Should this be the case these changes will be disclosed at the Audit Committee.

4. Letters of Representation

4.1 In order to provide assurance to our auditor's that they have received complete and accurate information the Audit Committee is asked to provide letters of representation. The Draft Letters of Management Representation relating to the Devon Pension Fund and the County Council are attached in the appendices.

5. Annual Governance Statement

5.1 The Statement was approved by the Audit Committee and signed by the Chief Executive and Chairman of the Audit Committee on 10th August 2020. External Audit has recommended that the Statement is updated to outline the actions that the Authority is taking in response to the recent Ofsted report into Children's Services. The Audit Committee is asked to consider the amendments and approve the amended Annual Governance Statement.

6. Conclusion

6.1 The Committee is recommended to approve the Statement of Accounts, the amended Annual Governance Statement and the letters of representation contained in the appendices to this report.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries: Angie Sinclair
Tel No: (01392) 38 1310 Room 195

Background Paper	Date	File Ref

There are no equality issues associated with this report

Appendix 1

Draft management representation letter – Devon Pension Fund

26th November 2020

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Dear Sirs

Devon Pension Fund:
Financial Statements for the year ended 31st March 2020

This representation letter is provided in connection with the audit of the financial statements of Devon Pension Fund (‘the Fund) for the year ended 31st March 2020 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the Fund’s financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

2. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

3. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements..

6. Except as disclosed in the financial statements:

   - there are no unrecorded liabilities, actual or contingent;

   - none of the assets of the Fund has been assigned, pledged or mortgaged; and

   - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

8. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

9. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

10. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

11. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

12. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund’s needs . We believe

that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

13. We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

14. We have communicated to you all deficiencies in internal control of which management is aware.

15. All transactions have been recorded in the accounting records and are reflected in the financial statements.

16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

17. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

18. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

19. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

20. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

21. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

22. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

23. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation is minuted by the Council's Audit Committee at its meeting on 26th November 2020.

Yours faithfully

Name Cllr John Mathews
Position Chair of the Audit Committee

Name Mary Davis
Position County Treasurer

Appendix 2

Draft management representation letter – County Council

26th November 2020

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Dear Sirs

Devon County Council: Financial Statements for the year ended 31st March 2020

This representation letter is provided in connection with the audit of the financial statements of Devon County Council for the year ended 31st March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

2. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

6. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

7. Except as disclosed in the financial statements:

   - there are no unrecorded liabilities, actual or contingent;
   - none of the assets of the Council has been assigned, pledged or mortgaged; and
   - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

9. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

10. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

11. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

12. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

13. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

14. We have provided you with:

    - access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;

    - additional information that you have requested from us for the purpose of your audit; and

    - access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

15. We have communicated to you all deficiencies in internal control of which management is aware.

16. All transactions have been recorded in the accounting records and are reflected in the financial statements.

17. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

18. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

    - management;

- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

19. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

20. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

21. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

22. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

23. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

24. The disclosures within the Report of the Treasurer and Chief Executive (Narrative Report) fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation is minuted by the Council's Audit Committee at its meeting on 26th November 2020.

Yours faithfully

Name Cllr John Mathews
Position Chair of the Audit Committee

Name Mary Davis
Position County Treasurer

Devon County Council

Statement of Accounts and Annual Governance Statement 2019/20

www.devon.gov.uk

Statement of Accounts and Annual Governance Statement 2019/2020

Report of the Treasurer and Chief Executive

Introduction

Welcome to the 2019/20 financial statements for Devon County Council.

This report includes a brief overview of the County Council, its objectives, performance and service provision for 2019/20. It also provides a summary of the financial performance of the Council as detailed later in the Statement of Accounts.

The Covid-19 pandemic is an unprecedented situation which continues to have significant impacts on Devon's residents, communities and businesses. Outlined later in this report are the major challenges it presents for the County Council, including considerable effects on services, urgent action taken, substantial additional expenditure and changes to priorities, procedures and decision-making arrangements.

As a one off because of Covid-19, Parliament has extended the deadline for the publication of the 2019/20 annual accounts from 31st May to no later than 31st August. Audited accounts should be published by 30th November.

The financial statements have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting (the Code) which is based on International Financial Reporting Standards (IFRS).

The Devon Pension Fund accounts, although included in this publication, are separate from the accounts of the Council and are subject to a separate audit opinion.

The Annual Governance Statement is included within this publication but does not form part of Devon County Council's accounts or those of the Pension Fund. The Annual Governance Statement explains the Council's Governance Framework and the roles of Cabinet and the Scrutiny function and significant governance issues and the challenges faced by the County Council.

This report constitutes the Authority's "Narrative Statement" as required by Section 8 of the Accounts and Audit Regulations 2015 (the Regulations).

Accounting Policies

The accounting policies (Note 2, page 30) establish the principles on which the figures in the financial statements are based. This year there have not been any significant changes to the Code.

Summary of Financial statements

The financial statements and their purpose are summarised as follows:

Comprehensive Income and Expenditure Statement (page 24)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Comprehensive Income and Expenditure Account shows a deficit of £56.8 millions in 2019/20 compared with a deficit of £29.9 millions in 2018/19. The increase in the deficit of £26.9 millions is mainly due to the following:

- There is an overspend of £19.8 millions in the High Needs Block of the Dedicated Schools Grant which has been carried forward as a negative ringfenced balance in the balance sheet - Note 9, page 54. This additional spend is offset by the recognition of the first tranche of the COVID grant of £22.5 millions received in 2019/20, most of which, £21.7 millions is carried forward to meet expenditure in 2020/21.

- In 2018/19 there were one off business rates gains in the 100% pilot year, which were carried forward into reserves. These gains were not repeated in 2019/20 which has contributed to the year on year variance.
- Technical adjustments which can be found in Note 8, pages 52 and 53, which have increased from £51.2 millions to £65.7 millions, a net change of £14.5 millions. There are increases in technical costs relating to depreciation £7 millions and pensions £15 millions, reduced capital grants recognised in CIES of £23 millions. These are partly offset by the decrease in asset disposals (mainly academy conversions) of £27 millions and other smaller variances.

Movement in Reserves Statement (page 25)

This statement shows the movement in year for the reserves held by the Authority analysed into usable reserves (i.e. those that can be applied to either fund expenditure or reduce local taxation) and other 'unusable' reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/Decrease line shows the statutory General Fund Balance before any discretionary transfers to and from earmarked reserves undertaken by the Authority as shown in Note 9, page 54.

The Revenue and Capital Outturn 2019/20 was presented to Cabinet on 8th July and detailed the budget variances and movements to general balances and earmarked reserves.

Unusable Reserves increased by just over £54 millions (Note 23). The main reasons for the movement in Unusable Reserves are the increases in the Revaluation Reserve and Capital Adjustment Account of just under £31 millions and £33 millions respectively. There are offsetting reductions of just over £3 millions in both the Pensions Reserve and Collection Fund Adjustment Account and just under £3 millions in deferred capital receipts.

Usable reserves have reduced by just over £7 millions, consisting of three elements

- Capital Grants Unapplied have reduced by just over £15 millions;
- Capital Receipts reserve has reduced by just over £700,000; and
- These reductions are offset by the increase in revenue Earmarked reserves by just under £9 millions and the detail is outlined later in this report.

Balance Sheet (page 26)

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The Authority has a negative Balance Sheet as at 31st March 2020 which means that the Authority's liabilities are just under £56 millions greater than its assets (£103millions at 31st March 2019). Although it may appear that this is a concern it is not, as the Pension Liability of just over £1,050 millions (Note 24, Page 83) does not represent an immediate call on the Authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term. More information on Pensions is provided within Note 37 on page 106.

Cash Flow Statement (page 27)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Council's future service delivery.

Economic Context

Over the period 2011/12 to 2019/20 the Council has had to make savings of just under £265 millions.

2019/20 was the final year of the Government's four-year Local Government financial settlement and although our core funding was reduced by a further £13.5 millions, to £101.5 millions this was in line with expectations. This reduction was offset to some extent by additional grants for Winter Pressures of £3.6 millions and Social Care Support of £6.1 millions.

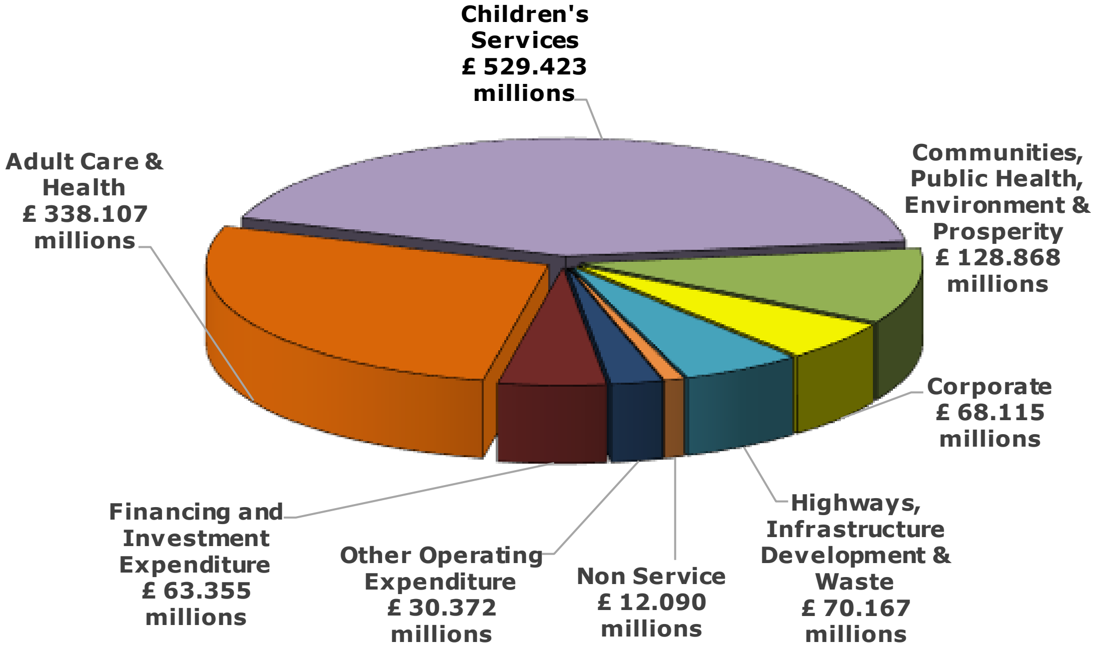
This level of cut on top of those already experienced was, and continues to be, a significant challenge for the Authority.

In 2020/21 the Authority's Core Funding has increased by 1.63%, this is a welcome change from the 11% average annual reduction since austerity began in 2010. There are significant ongoing pressures in both adult and children's services with the greatest area of concern being the funding shortfall on the Dedicated School's Grant High Needs Block and the lack of information from Government on what they intend to do about it.

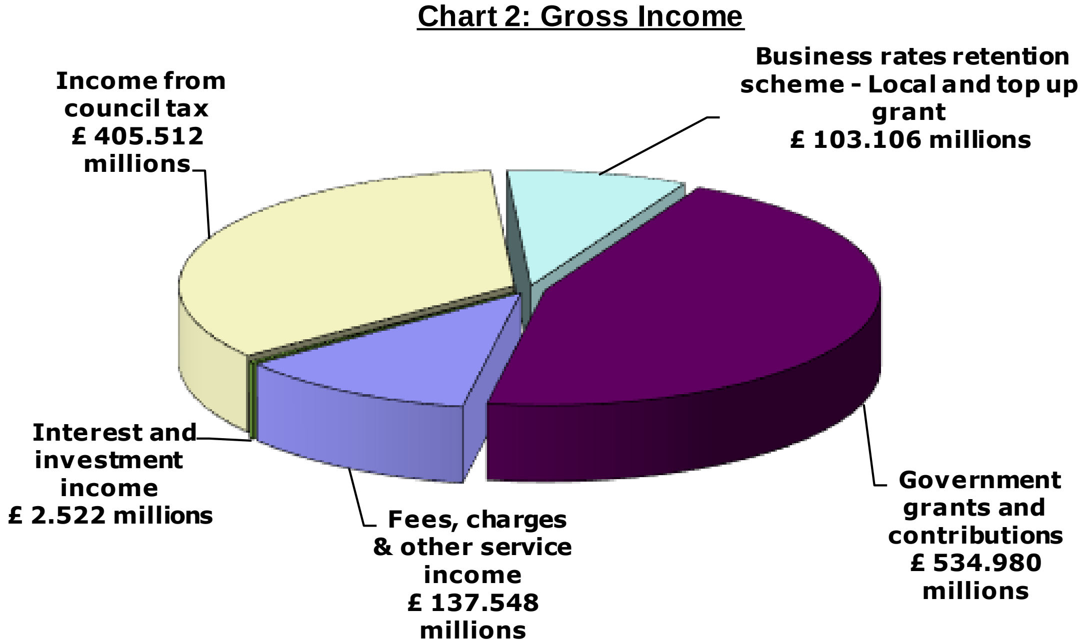
Financial performance

The Code requires that the Comprehensive Income and Expenditure Statement takes the format of how the Authority reports its own financial performance through budget monitoring during the year against the budget that was approved by Council in February 2019. Gross expenditure totalled just over £1,240 millions and Chart 1 highlights spending by type.

Chart 1: Gross Expenditure



Expenditure is funded from a number of sources, some within Devon and some from Central Government. Chart 2, that follows, highlights sources of revenue income for the Authority during the year. Total gross income of just under £1,184 millions was received during the year. Chart 2 shows how this is derived.



Revenue Spending

Revenue expenditure provides the day-to-day services of the Council. Income arises from charges for such services where appropriate and contributions towards their costs.

The budget is set and monitored on a management accounting basis and does not include the statutory accounting entries that are included elsewhere within these accounts.

Members have received regular budget monitoring reports throughout 2019/20 in which budget pressures and risks have been identified. The most significant of these have related to Adult Services and Children's Services that were forecasting an overspend of £6.2 millions and £6.0 millions respectively. In order to offset some of the overspending Cabinet had planned to not make the budgeted contribution of £3 millions to the Budget Management Reserve and £5 millions to the Transformation Reserve. The final outturn is slightly better than anticipated and it has been possible to go ahead and make the £3 millions contribution to the Budget Management Reserve and £1 million to the Transformation Reserve as well as the usual contribution to the Business Rates Risk Reserve of the Business Rates Pooling gain.

The Dedicated Schools Grant has also been under significant pressure all year due to Government underfunding of the Special Educational Needs and Disabilities (SEND) Service. At its highest this was forecast at over £21 millions, the year-end position is a shortfall of £19.8 millions. As discussed throughout the year this sum is now held in a negative reserve on the Balance Sheet. This is discussed in more detail in paragraph 5.2 and can been seen in the Earmarked Reserves table on page 10.

The financial year has now ended and the overall authority position, excluding the SEND underfunding and after transfers to and from Reserves, is a small underspending of £33,000.

Adult Care and Health

The outturn for Adult Care and Health Services shows an overall net overspend of just under £5.7millions, after a carry forward of £731,000 that relates to the Better Care Fund.

Adult Care operations and Health is showing an overspend of £6.2 millions. The overspend is the result of price and activity pressures; total care packages for older people and disabilities were 382 more than budgeted for at year end. Underspends in staffing and contract costs have offset some of this pressure.

Adult Commissioning and Health is showing an underspend of £491,000. This is the result of an underspend on staffing and central contracts which more than offsets the overspend on Mental Health services.

Children's Services

The outturn position for Children's Services is an overspend of £4.4 millions.

For Children's Social Care the overspend is £1.5 millions. The main cause has been a greater number of children with complex needs requiring enhanced packages of care within supported accommodation provision, which resulted in an overspend of just over £2 millions. In Disabled Children's Services more children and their families are accessing short break services, some with very high levels of need, resulting in an overspend of £835,000. Increased legal costs associated with higher volumes of cases and reduced income, added a further pressure of £817,000. Increases in Special Guardianship Orders and allowances, increased commissioning of advocacy services, and the use of agency staff to cover vacancies and increased demand have resulted in an overspend of £560,000. Lower than budgeted numbers of looked after disabled children, the net effect of all other placement mix and price variations, vacancies and other variations within the service have led to a combined underspend of £2.7 millions.

For Education and Learning General Fund the final position is an overspend of £2.8 millions. The most significant adverse variance is within Schools Transport. The personalised transport budget has seen increased costs and higher numbers of children with Special Educational Needs requiring personalised transport.

Education and Learning spending on schools is funded by the ring-fenced Dedicated Schools Grant (DSG). Throughout the year there has been increasing concern over the funding shortfall relating to the Special Educational Needs and Disabilities (SEND) element of the Grant. At the end of the year this funding shortfall is £19.8 millions mainly due to increased demand and rising costs around high needs and in particular Independent Special School placements. This is a national issue, but that is little comfort. In line with requirements issued by the Department for Education, the County Council must carry forward the whole funding shortfall to the DSG budget in future years, which will be held on the balance sheet as a negative reserve. This is further explained later in this report and can be seen within the Earmarked Reserves.

The Schools Forum has agreed ring fenced schools surplus balances of £16.1 millions, other central and delegated balances of £3.6 millions and the High Needs deficit of £19.8 millions.

Communities, Public Health, Environment and Prosperity

The outturn for Communities, Public Health, Environment and Prosperity shows an overall underspend of just over £1 millions after taking into account grants and carry forwards.

Communities and other services are underspent by £198,000. This is mainly due to underspends on staffing and variations on activity. Economy Enterprise and Skills is underspent by £198,000. This is mainly a result of slippage on major development projects, underspends on staffing and increased income. Planning, Transportation and Environment is showing an underspend of £663,000. This relates mainly to reduced National Travel Scheme journey numbers, a mixture of capitalisation and slippage on community flood schemes, fees from secondment of staff and slippage on various project spend.

Public Health underspent by £1.7 millions against the Public Health Grant. This latter amount has been added to the statutory public health reserve.

Corporate Services

The outturn for Corporate Services shows an overall overspend of just over £1.1 millions after taking into account grants and contributions carry forwards.

Chief Executive, HR, Legal and communications are £131,000 overspent. Under achievement of savings plans and backlog management within the Coroners service, have been offset to a great extent by underspends from vacancies and improved income generation.

Digital transformation and Business Support are showing an underspend of £779,000. Scomis Group contributed £320,000 of the underspend, generated by the education sector and other commissioned work, with slippage in delivering the IT roadmap and increased income generation more than offsetting other service pressures.

The County Treasurer is showing an underspend of £94,000 linked to increased income generation and vacancies.

Delivery of Cross Council Savings strategies built into the budget were not required resulting in an overspend of £1.9 millions.

Highways, Infrastructure Development and Waste

An overspend of £1.4 millions has been generated within Highways and Traffic Management. Pressures from safety defect repairs and income targets within highways network management have been partially offset by reduced winter service activities and underspends on street lighting energy savings from LED conversions.

Waste tonnages have reduced through the year, including both disposal and recycling activities. This has contributed to a net underspend for the service of £3.6 millions.

Expenditure of £7.7 millions has been charged to the On-street parking account during the year. This includes items such as operating costs for on-street parking and enforcement activities, public transport support and highways cyclic maintenance works. Income totalling £6.9 millions has been generated, leaving a shortfall against expenditure of £0.8 millions. The balance of the reserve has reduced from £3.3 millions to £2.5 millions at 31st March 2020. As shown in the 2020/21 budget book, the balance of the account is expected to continue to reduce over future years.

Other Items

£1.2 millions of the budget for a Pension Contribution Shortfall has not been needed and is therefore underspent this has helped to reduce the overspending on services to £6.7 millions.

The Better Care Fund has underspent this year and £1.0 million of the Improved Better Care Fund Grant is being carried forward into 2020/21.

Interest Receivable is £922,000 more than budgeted. This can mostly be attributed to achieving a higher average return on investments in banks and building societies than budgeted of 0.97% compared with the target of 0.75%.

The Council Tax Support Partnership budget is underspent by £279,000. Due to the mild winter the Bellwin Scheme Related Emergencies budget of £1.5 millions has not been needed and remains unspent at the year-end.

The Covid19 Pandemic started to impact the authority's finances in March and £843,000 of costs and lost income was incurred. The Authority's share of the first £1.6bn Covid19 funding grant was £22.5 millions and was received in March; of this £843,000 has been used to offset the costs incurred and the remaining £21.7 millions is being carried forward to 2020/21. The pandemic is causing considerable financial uncertainty and the Outturn therefore includes a prudent increase in the Bad Debt Provision of £1.4 millions.

£257,000 of the Brexit Preparation Grant remains unspent and it is recommended that it is carried forward to 2020/21. £217,000 infrastructure development budget was carried forward from 2018/19; this sum is committed to future capital projects and £208,000 is carried forward again this year.

£160,000 of additional compensation grants for Business Rates reliefs along with £2.3 millions of income from being part of the Devon Business Rates Pool have been transferred to the Business Rates Risk Reserve to help increase resilience to future fluctuations.

The Government has distributed the surplus on the Business Rates Levy Account and Devon's share of this is £344,000. This along with variances on Local Service Support Grant, Schools Improvement and other small grants have been used to balance the overall outturn position.

Better Care Fund

The Better Care Fund (BCF) for 2019/20 totals £101.974 millions which is reporting an underspend of £1.740 millions (1.7%); £1.010 millions grant and £731,000 revenue. This total will be carried forward in full by the Council to 2020/21, to continue with 2019/20 spending plans within the terms of the BCF framework agreement. The revenue underspending of £731,000 is attributable to both a reduced spending within Adult Carers and Care Act services, along with some reduced spending for support to social care. The BCF governing body, the Joint Commissioning Co-ordination Group, have agreed that all of the surplus fund carried forward in to the 2020-21 financial year will be reinvested specifically for BCF purposes. For more information on the Better Care Fund, please see the table in Note 34, page 95.

General Balances

The working balance at 31st March 2019 was £14.7 millions. The review of the financial risk assessment prepared when the 2019/20 Budget was set indicates that the Council should hold a working balance of about £14 millions. The outturn has enabled £33,000 to be added to the working balance.

Earmarked Reserves

At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £111.2 millions. During the year earmarked reserves have increased by a net £8.8 millions to £120.0 millions. The reason for this movement is explained below:

	£000	**£000**
Budgeted contribution		7,500
Underspend on Public Health Ring-fenced Grant	1,686	
Business Rates Risk Reserve - Pooling Gain & additional grant	2,441	
		4,127
Spend on Transformation	(1,475)	
Spend from On Street Parking Reserve	(786)	
Spend from Climate Change Emergency Reserve	(54)	
Spend from Business Rates Pilot Reserve	(503)	
Spend from Budget Management Reserve	(20)	
		(2,838)
		8,789

For the first time, the authority now also holds a negative reserve. The underfunding of the Dedicated Schools Grant SEND service has resulted in £19.772 millions being held on the Balance Sheet. The creation of the negative reserve is in line with Government requirements and, whilst recognising this is a national issue, it is nonetheless a worrying development for Local Government. It is unclear how Government intends to rectify the historic and projected future underfunding.

Details of earmarked reserves are contained in Note 9.

Funding Pressures arising from COVID-19

In response to the COVID-19 outbreak, the government has been making a series of ongoing policy announcements, initially at Budget 2020, and then throughout March, April, May and June. This has meant local authorities have had to respond quickly to new announcements and understand their financial implications.

Central government has put in place a number of grant funding streams to help support local authorities and care providers. For the County Council the most significant of which is £36.7 millions; its share of the two main tranches of £1.6 billions that are known as the Local Authority Support Grant.

As part of the financial commitment monitoring process, the Authority's Pandemic Incident Management Team (PIMT) received weekly updates that detailed both the agreed interventions and also any pipeline proposals which were under development. These updates then featured within PIMTs weekly reporting to Leadership Group.

These updates have primarily focused on the commitments made to date via the Pandemic Funding Protocol (PFP) process. The value of these initial commitments, reported to Cabinet on 8th July is £45.3millions. Due to local dynamics within service areas the commencement date, timeframes and scope will vary for each intervention. The value of the commitments is constantly evolving as additional interventions are confirmed, and previous estimates refined.

The current commitments range from one-off support or set up costs, time limited interventions, ongoing commitments to support particular service sectors, lost income and the impact of estimated budget savings plans, which are now unlikely to be achieved. Some of the interventions will have started in March 2020 and therefore cross financial years and expire at different points over the coming months, while others will make an impact throughout the 2020/21 financial year.

The following table summarises the value of expected interventions by service area, as reported to Cabinet on 8th July:

	£000
Adult Care & Health	23,618
Children's Services	6,353
Communities, Public Health, Economy & Prosperity	1,437
Corporate Services	3,864
Highways, Infrastructure & Waste	3,753
Authority Wide/Cross Cutting	6,270
Total	**45,295**

These financial commitments are evolving over time and the actual spend and lost income is being closely monitored and will be reported to Cabinet as part of the normal Budget Monitoring governance procedures.

Council Tax and Business Rates

Assessing the impact the Pandemic is having on Council Tax collection and the tax base is very difficult this early in the year. Estimates provided on the Government's returns indicate losses of up to 13%. It is, however, unclear if these losses will be permanent or just a matter of cashflow with payments being made later in the year or even next year. There is an added complication relating to increased Universal Credit claimants and the impact this may have on the Tax Base for next year along with the impact of the furlough scheme ending later in the year and the ongoing economic situation.

Due to the level of Business Rates Relief the Government has introduced, the risk to lost Business Rates is much lower and estimates from the Districts are around £1 million.

Pandemic Funding Summary

Current approved and pipeline response plans already exceed the main grant by £5 millions, and this is without taking account of the significant loss in Council Tax our Districts are projecting. It is imperative that as the Authority transitions from Response to Recovery, that it is done in a measured and affordable way.

Capital Spending

The approved capital programme for 2019/20 was £152.4 millions and actual capital expenditure was £115.1 millions. The following table summarises 2019/20 expenditure and its financing.

Capital Expenditure	**Budget**	**Actual Spend**	**Variation**
	£'000	**£'000**	**£'000**
Adult Care and Health	10,924	7,622	3,302
Children's Services	5,956	4,506	1,450
Communities, Public Health, Environment and Prosperity	61,438	32,684	28,754
Corporate Services	8,464	5,130	3,334
Highways, Infrastructure Development & Waste	65,605	65,187	418
Total	**152,387**	**115,129**	**37,258**

Capital Financing	**Budget**	**Actual Spend**	**Variation**
	£'000	**£'000**	**£'000**
Capital Receipts	14,638	6,720	7,918
Internal Borrowing	8,163	3,338	4,825
External Grants and Contributions	127,847	104,264	23,583
Revenue Budgets	1,739	807	932
Total	**152,387**	**115,129**	**37,258**

As set out in the previous table, the Capital Programme outturn variance was £37.3 millions (this compares to £50.3 millions in 2018/19). Within this total £33.9 millions represents slippage across a range of schemes which will be carried forward to future years and £3.4 millions savings achieved in programme delivery.

Adult Care and Health

£993,000 of slippage is due to the North Devon Community Facility. This project is being re-scoped and is expected to recommence in 2020/21.

In line with a decision taken at February Cabinet, the Adult Care & Health 2019/20 capital programme has been reduced by £2.0 millions whilst options on individual schemes are reassessed.

Children's Services

There has been a reduced call on the Vehicle and Equipment Loans Pool (VELP) fund, as schools make use of alternative sources of external funding. £5.9 millions has been invested in the enhancement of schools via 140 different projects, County wide, with a culmination of slippage across these projects totalling £554,000.

Communities, Public Health, Environment and Prosperity

The Heart of the South West Local Enterprise Partnership (HotSWLEP) approved a scheme at Marsh Barton, to construct a new railway station. Network Rail did not sign the agreement, which would allow the Council to work on their own infrastructure, until late in the financial year. Therefore £3.2 millions (excluding LTP funding) of works have been carried forward.

The Local Transport Plan (LTP) Integrated Transport Block grant budget for 2019/20 was £3.9 millions with slippage of £2 millions. £500,000 was earmarked for Marsh Barton station. The remaining variance is across a number of schemes where National Productivity Investment Fund (NPIF) grant has been applied first.

The HotSWLEP approved the A382 widening scheme phase 1 to deliver road realignment, widening and provision of cycling and pedestrian facilities. The 2019/20 budget was £5.9 millions with slippage of £3.1 millions. There was a delay in delivering the scheme largely due to procurement issues, however works commenced in February 2020.

The 2019/20 budget for North Devon Link Road was £5.9 millions with slippage of £3.9 millions. The risks included in the early stages of the project, particularly with regard to planning, did not materialise. Most of the land negotiations were not finalised in 2019/20 and professional fees were put on hold during the procurement period.

Whilst the South Devon Highway was opened in December 2015, claims under the Land Compensation Act cannot be made until at least 12 months later and up to 6 years. The 2019/20 budget was £3.8 millions funded 50/50 with Torbay Council. The variance at year end is £2.6 millions. This is a difficult area to predict, in terms of cost and timing, as all claims and payments need to be agreed between various parties.

The Main Street scheme is the new road being constructed through the Sherford development, making it accessible to the A38. The 2019/20 budget was £4.2 million with slippage of £1.1 millions. The works programme was delayed late autumn 2019 due to issues with a utility company, which have since been resolved.

Construction of a Park and Change site on the eastern side of Exeter Science Park had a budget £2.2 millions in 2019/20 with slippage of £1.4 millions. The variance is linked to delays in the procurement process and in resolving land issues. Works commenced February 2020.

The initial DfT announcement for the Safer Roads Fund grant for the A3121 scheme was in June 2018 however, a formal award letter for £1.9 millions was not received until March 2019. Scheme progress was put on hold until funding was formally secured. Detailed design then commenced and work progressed to acquire the various parcels of land. This resulted in slippage of £1.5 millions.

The Roundswell South Business Park & North Devon Enterprise Centre schemes are being run concurrently to ensure value for money and minimal disruption to residents.   Work has now commenced on site, with delays caused primarily by the wet winter which delayed groundworks and resulted in slippage of £1.7 millions

The Bideford library project design is at appraisal stage and is on hold while various options are considered which resulted in slippage of £650,000.

Corporate Services

The County Farms programme over delivered in 2019/20 with £30,000 being accelerated from the 2020/21 budget. The work carried out in 2019/20 related to a programme of works to upgrade the Councils existing farms dwellings to the Decent Homes Standards. This work will continue in 2020/21.
Within the Estates budget, infrastructure for the Access Control System which relates to the upgrade of the Councils car parking access and security systems, was largely completed in 2019/20 with the remainder of the implementation work to be completed in 2020/21.

Work has commenced this financial year on elements of the Strategic Centres Accommodation Improvement Programme; however, the majority of work will not be completed until 2020/21. This project includes work to reconfigure and enhance existing office accommodation, including the electrics and lighting. Provisional design works and surveys were completed in 2019/20 taking longer than expected, resulting in slippage of £1.4 millions.

The development and implementation of the ICT roadmap continued during 2019/20 with detailed spending plans progressing well on many schemes including the Digital Platform and other spend relating to corporate infrastructure initiatives. £600,000 will be slipped to 2020/21. This is due procurement processes for large scale projects taking longer than anticipated.

Highways, Infrastructure Development and Waste

The Local Transport Plan (LTP) maintenance budget for 2019/20 was £55.3 millions and included a brought forward of £12.0 millions from 2018/19. This funding supported the delivery of over 750 highway and bridges schemes. The LTP programme over delivered in 2019/20 by £1.9 millions, which will be the first call on the 2020/21 budget.

Pensions Liability

The Authority's pension fund deficit is subject to two different actuarial valuations; the Triennial Valuation and the IAS 19 annual accounting valuation. The Triennial Valuation is used to set the employer contribution rates for the following three years and is based on assumptions that are specific to the Authority's part of the Devon Pension Fund. The annual IAS 19 valuation, that the authority is required to use in these accounts uses standardised assumptions and is designed to provide comparability between employers.

The liability of just over £1,050 millions (Note 24 page 83) on the County Council's Balance Sheet is offset by pension costs to be reimbursed as they fall due from Plymouth City Council and Torbay Council of just over £24 millions (Note 17 page 64) leaving a deficit (Pensions Reserve) of just under £1,026 millions (Note 23 page 80). The liability is the annual accounting valuation and is an assessment of the level of corporate bonds a corporate body would need to issue in order to cover the cost of the deficit over an assessed period. This approach was designed with the private sector in mind but has also been adopted by the public sector although of course in local government the true pension fund deficit is assessed through the Triennial Valuation and the deficit made good over the working life of the employees rather than by issuing Corporate Bonds.

The accounting valuation is based on the corporate bond yield as at 31st March 2020. The liability at 31st March 2020 has only changed by less than £1 million since 31st March 2019. There are two key movements that broadly offset each other:

- Reduction in the value of the Authority's share of Pension Fund Assets by just over £114 millions or 8.6%

- Reduction in the present value of the defined benefit obligation by just over £113 millions - what is estimated to be paid to current and future pensioners. Although this is the net overall movement, the largest single factor is the change in the financial assumptions of the actuary, particularly the reduction in consumer prices index (CPI). The reduction of the actuary's projected annual CPI from 2.4% to 1.9%, reduces future projected pension increases and therefore future liabilities.

It is arguable whether the annual calculation of the pension fund deficit can accurately reflect the long run position.

Note 37 on page 106 provides further information.

Performance Management

About Devon

Devon has:

- An outstanding natural environment and a strong sense of community.
- An ageing population and high inward migration of older people. In 2016 there were 28,143 people aged 85 and over, projected to rise to 62,532 by 2039.
- 8,000 miles of roads, 3,100 miles of Public Rights of Way, two National parks and five Areas of Outstanding Natural Beauty.
- A skilled workforce, but low earnings, with significant economic diversity between Devon's Districts.
- Low crime overall, but increased risks from drugs, child sexual exploitation, domestic abuse and modern slavery.
- Average house prices more than 9x annual earnings, compared to 7x nationally.
- Increasing homelessness, with more than 15,000 families on the housing register.
- Isolation and limited access to services in some rural areas.

About Devon County Council

Devon County Council is one of 26 County Councils in England. We represent a population of around 780,000 and administer an area of 6,564 km2, geographically the third largest in England. Devon is a three-tiered local authority area and we work in partnership with eight District Councils and over 300 Town and Parish Councils.

The most recent County Council elections took place in May 2017 with the Conservative group, led by Councillor John Hart, remaining in control of the Council with 42 of the 60 seats.

Our objectives

Four priority areas guide our work:

- Climate change.
- Changing demographic structure.
- Fairness and equity.
- Trust and confidence.

Our services

Our main service groups are:

- Adult Care and Health; including services for adults of any ages who have a physical health need, a mental health need, a learning disability or autism. We also commission support to informal carers. There are approximately 24,000 people working in adult social care in Devon across hundreds of independent care providers.
- Children's Services; including education and learning, services for vulnerable children and families, safeguarding, looked after children and care leavers,
- Communities, Public Health, Environment and Prosperity; including public health, emergency planning, planning, transportation and environment, economy enterprise and skills, trading standards, libraries, youth services, community strategy and community safety.
- Highways, Infrastructure, Development and Waste,
- Legal, Human Resources and Communications; including registration of births, deaths and marriages and the Coroner service,
- Digital Transformation and Business Support,
- County Treasurer.

Risks and challenges

Following the occurrence of the global COVID-19 Pandemic, risks faced by council services have increased. Notably this includes the following important areas:

- Supplier Resilience; Managing 3rd Party Risk is an integral part of the operation of council services as it impacts both day to day delivery and commissioned services. However, COVID-19 has increased this risk and the council has taken proactive action across Procurement, Finance, Legal Social Care etc to facilitate supplier stability. Key actions included paying invoices more quickly and responding to specific requests from suppliers for support.
- The increased flow of funding to support the COVID-19 response heightens the opportunity for fraud against the council. Personal Protective Equipment (PPE) is one example, with additional funding necessary to support residential care providers. Social Care Officers discussed need with induvial providers, and Finance Officers validated the evidence for extra costs prior to making payment, raising any concerns with Internal Audit for further investigation.

The Council has needed a fast and agile response to the crisis and to manage the risks, leading to changes to the control framework. These changes are reviewed regularly to ensure that they continue to be both necessary and proportionate.

Some of our other main risks and challenges include:

- The outcome of post Brexit trade discussions and impacts on the local economy.
- Ensuring the sustainability of all our independent care provider markets including access to the necessary staff and resources to continue to operate safely and in line with national guidance.
- Ensuring vulnerable young people have a good transition to adulthood.
- Responding to extreme weather events including flooding, obstruction and structural damage to transport infrastructure affecting citizens and property.

The impacts of COVID-19 on Devon County Council.

Responding to the Outbreak

The Council managed its response to the COVID-19 pandemic by immediately establishing a cross-organisational Pandemic Incident Management Team (PIMT), chaired by the Director of Public Health, which met regularly from February to June 2020. The PIMT oversaw the tactical response to the first phase of the pandemic and reported to the Council's Leadership Group.

As of 1 June 2020, there were 1,087 confirmed COVID-19 cases in the County Council area, with the majority in older age groups. The number of confirmed COVID-19 deaths stood at 121. Just over half of those occurred in care homes, the remainder in hospital with a small number at home or other settings.

Over 30,000 people in Devon were identified by the NHS as extremely clinically vulnerable and were advised to shield themselves for 12 weeks. The County Council worked with Devon's eight district local authorities and community/voluntary groups to address impacts on the most vulnerable families, children and young people who may have been be struggling with food supplies, loneliness or financial hardship.

The Council helped to coordinate the provision of deliveries of food to those shielding. It put in place a COVID-19 Rapid Response Fund to help communities to respond to local needs during the pandemic. Small grants (less than £500) and larger grants of up to £5,000 were made available to support local organisations and voluntary groups.

The Council contributed £100,000 to the Devon Community Foundation's "Devon Coronavirus Response and Recovery Fund" to help local charities and community organisations support the most vulnerable people affected by the outbreak. The Council allocated £1million in grant funding across the eight district councils to enable the provision of rapid short-term help for people who are economically vulnerable and in financial hardship. The Council provided £150,000 in order to support the infrastructure and local groups for young people.

Accommodation services were rapidly arranged to free up hospital and care settings space and separately, to support key frontline workers temporarily unable to return home due to their work.

At the end of May 2020, the County Council was designated by Government as one of England's 11 Beacon Councils to lead on the development of new COVID-19 Local Outbreak Management Plans which will link with and support the national NHS test and trace programme. The new role of local government in COVID-19 management is strongly based on co-production with central Government. The new responsibility will build on the statutory role of the Council's Director of Public Health. The County Council will lead the local management of infection control and local testing and tracing arrangements through Devon and Torbay COVID-19 Health Protection Board and Team Devon, the local Outbreak Engagement Board.

Supporting vulnerable adults

The Adult Care and Health response to COVID-19 majored on supporting all our independent providers of adult social care. The response was swift, comprehensive and effective and a likely contributing factor to Devon experiencing significantly less COVID-19 related care home deaths than would be expected given the prevalence in the community.

A key challenge was putting in place local support and guidance as national policy continually set out new requirements. Continual engagement via the Provider Engagement Network has been the main platform for information exchange providing local interpretation of national guidance, including on local testing arrangements and how to access PPE in emergencies. The four key areas of our response were:

1) Financial Support: A package of financial support in place across the independent provider market including a commitment to fund our contracted care providers so they can increase staff pay to those delivering personal care.

   We also increased our fees by 5 per cent for all our commissioned care home placements, our providers of supported living, shared lives accommodation, enabling and day services.

   This financial support has been essential in enabling care providers to maintain services safely, protect their staff and clients and secure on-going sustainability at a time when many vulnerable people needing adult social care are choosing to meet their needs in ways other than commissioned services.

2) Infection Control: At the very start of the pandemic we provided proactive support to care homes in relation to outbreak management. This has included providing additional staff for affected homes to ensure they could continue to operate safely.

   National funding via the Infection Control Fund provided £10.5 millions to Devon to directly support care providers, 75% of which was granted directly to care homes who we have been supporting to ensure they meet the criteria to receive the grant. We took the decision locally to invest the remaining 25% in other care markets to support infection control. Together with the Clinical Commissioning Group (CCG) we have held weekly 'care home and out of hospital support' webinars with over 150 care providers attending each session, often with infection control being discussed.

   Despite the national focus on shortages of PPE, Devon was able to maintain local supplies, working closely with NHS Devon CCG. Devon sourced and distributed over 1.5 million items of PPE to Services across Devon, the majority being distributed to Children's and Adults Social care settings and providers, with the peak of distribution being during early to mid-April.

3) Testing: In the face of changing testing requirements, the health and care system worked together and with the Local Resilience Forum to share testing capacity and facilities and create local testing pathways and processes both for people receiving care and support and the workforce delivering it. A COVID-19 testing programme for all Devon's 333 care homes has been put in place.

4) Supporting the provider workforce: We rapidly developed a redeployment strategy to identify, train and deploy staff from within DCC and beyond into the caring workforce within a 3- day timeframe. This was supported by the Proud to Care campaign 'Do your bit for Devon' which called for both temporary and permanent health care assistants across the Devon health and care system during the COVID-19 period.

   As of 29 June 2020, we had received 568 expressions of interest to work in care homes or delivering home care, with many now either being trained, offered employment or currently employed.

Supporting Vulnerable Children

Children's' Services continued to support vulnerable children and their families. This, in collaboration with schools, included the completion of a risk assessment in relation to COVID-19 for every vulnerable child. In most instances that resulted in increasing the number of contacts made with vulnerable children and their families.

During the latter part of April and into early May, the Council prepared for the relaxing of the lockdown and phased return to schools. On the 1st June, after Government guidance on the phased reopening schools had been issued, 270 of the 320 primary schools across the county were open. Around 185 of those schools were offering parents wider access to provision in Reception, Year 1 or Year 6 as well as the original classes for the children of key workers and vulnerable children which all schools offered. Other schools were planning staged openings with some provision. Around 40 per cent of families who had access to wider provision took up the offer. All secondary schools remained open to vulnerable children and those of key workers. Schools experienced a significant increase in the children of key workers attending classes since before the May half-term.

A January 2020 Ofsted Inspection of Devon's Children's' Services reached a judgement of "inadequate". Work is underway to improve key areas, with regard to the Government's priorities for local government in the context of COVID-19; to maintain the care system; to protect the most vulnerable; and to support the community. An improvement plan shows how, in our response to COVID-19, we are addressing the most immediate risks to children and young people identified in the inspection.

Supporting Devon's economy

In April 2020, Devon County Council, Plymouth City Council and Torbay Council, with input from business organisations and the Heart of the South West Local Enterprise Partnership presented a COVID-19 Economic Resilience report to the Government's Local Economies Advisory Panel. The LEAP report estimated that the coronavirus pandemic could place 123,000 jobs at risk through cumulative losses in the air industry, tourism and hospitality, food and drink, and retail sectors. The Panel assigned a "red rating" to the local economies of Devon, Plymouth and Torbay. The three local authorities predicted a potential loss of £1.98 billion (12% GVA) and warned that the recovery would take longer than other parts of the UK.

Improving the way we work

The Council's digital transformation programme has been the basis for an effective digitally enabled response to COVID-19. This includes rapid scale up of remote individual and team working and movement of key democratic meetings (Cabinet, scrutiny and several regulatory bodies) to remote operation. All employees have been able to continue working during lockdown, which prevented all but the most essential workers from leaving their homes. Digital transformation will support future recovery, resilience and transformation.

The Council has also been implementing a new data and intelligence strategy, known as 'Smarter Devon', to ensure we use data in the best way possible to inform our decision-making.

A new Recovery Coordinating Group is coordinating Devon's post-pandemic recovery and regrowth, informed by the needs of the people of Devon.

Highlights of achievements and performance

For adult social care:

- People with Learning Disabilities in Devon are more likely to be employed and to live independently than is typical elsewhere. But we need to continue to promote the employability of all people with disabilities.
- A far lower proportion of delayed transfers of care are attributable to social care than is typical nationally.
- We have consistently achieved better overall satisfaction ratings for our services than all the national, regional and comparator averages and are now 11th of 150 local authorities in the country.
- For several years Devon has placed a lower proportion of its older people into care homes than comparators, supporting them at home in the community instead. But we still meet the needs of too many working age adults through residential care when they would be better supported in the community.
- Comparatively more providers in Devon are rated Good or Outstanding by the Care Quality Commission (CQC).

Table 1: Example Adult Social Care indicators 2019/20

	2019	2018	South West	England
People with Learning Disabilities: % in paid employment	8.9%	8.6%	6.0%	5.9%
People with Mental Health conditions: % in paid employment	7.0%	8.0%	10.0%	8.0%
People aged 65+ still at home 91 days after discharge from hospital	80.1%	82.6%	80.8%	82.4%
Age 18-64 in residential/nursing care (per 100,000 population)	16.0	17.7	14.0	13.9
Age 65+ in residential/nursing care (per 100,000 population)	558.2	494.3	513.0	580.0
Overall satisfaction with adult social care services	70.7%	67.9%	67.1%	64.3%
Social care users who have as much social contact as they would like	44.7%	42.8%	46.6%	45.9%

Our Adult Social Care 2019 Annual Report provides a full account of our performance.

For children:

- The number of children who are the subject of a Child Protection Plan continued to rise in 2019/20, but the rate remains below regional and England averages.
- Take up of funding for two-year olds is 88% in 2019, significantly better than national and regional rates. The take-up of the extended entitlement for three- and four-year olds has increased from 2018 and now represents 70.9% of those who are eligible.
- 72.7% of children achieved a good level of development at Early Years Foundation Stage, in line with England and regional averages. The inequality gap between the lowest achieving 20% and their peers is smaller in Devon than nationally. Devon is in the top performing quartile for local authorities.
- Devon schools have consistently delivered good provision despite being one of the 40 lowest funded local authorities.

- 2019 results indicate that attainment at Key Stage 2 Reading, Writing and Mathematics has been maintained and Devon is close to the national average.
- Performance at Key Stage 4 has improved slightly in each of the key measures (English & Maths, Attainment 8 and English Baccalaureate) with Progress 8 remaining stable.
- Outcomes for disadvantaged children are below the national average and in line with the regional average. There is a significant gap between boys' and girls' attainment and progress which reflects the national picture. Addressing these issues continues to be part of partnership working and a wider piece of work to address social mobility is being undertaken in partnership with the Local Enterprise Partnership (LEP).
- Educational outcomes for children with Education, Health and Care plans are well above the national average at each Key Stage.
- In the year after completing Key Stage 4, 94.4% of pupils in Devon were in sustained education, employment or apprenticeships. This is slightly better than the national picture (93.8%). For disadvantaged pupils the rate is lower at 89%, reflecting the national trend (88%).
- The overall percentage of primary, secondary and special schools in Devon judged by Ofsted as good or better is in line with the national average (86%).
- The overall absence rate in Devon primary, secondary and special schools is in line with national and regional averages, whilst the percentage of pupils classed as persistent absentees is lower in Devon than nationally and regionally.

Table 2: Example Children's services indicators 2018/19

	2019	2018	South West	England
Take up of funding for two-year olds	88%	91%	75%	68%
Children achieving a good level of development at Early Years Foundation Stage	72.7%	71.7%	72.0%	71.8%
Gap in attainment between children of different abilities at Foundation Stage	28%	27.1%	28.8%	32.4%
KS2 reading, writing and mathematics (all pupils)	64%	64%	64%	65%
KS2 reading, writing and mathematics, Children with Free School Meals (FSM)	40%	44%	43%	47%
KS2 reading, writing and mathematics, Children with Education, Health & Care Plan (EHCP)	12%	12%	9%	9%
Key Stage 4 English & Maths 9-4 pass	64.9%	64.2%	65.0%	59.8%
Average Attainment 8 score (all pupils)	46.3	45.8	46.7	44.7
Average Progress 8 score (all pupils)	-0.13	-0.13	-0.06	not avail
Average Attainment 8 score (FSM)	31.3	32.3	32.2	35.0
Average Attainment 8 score (EHCP)	16.6	15.3	14.0	13.7
Average Progress 8 score (FSM)	-0.8	-0.79	-0.71	-0.53
Average Progress 8 score (EHCP)	-1.15	-1.09	-1.19	-1.17

Health

- Devon’s population has a generally good level of health, but some outcomes are poorer for the county compared to England. For example, rates of self-harm, suicide, mental and behavioural admissions from drug misuse are increasing.
- Fewer adults in Devon (60.1%) are overweight or obese than the England average (62.0%). 72.8% of adults describe themselves as physically active, more than the England average of 66.3%. However, considerable variation exists between the communities in the county. For example, there is a 15-year difference between the area with the shortest (central Ilfracombe, 75 years) and longest (Liverton in Exmouth, 90 years) life expectancies.

See Devon’s 2019-20 Annual Public Heath Report “Human and Planetary Health”

Environment

- In 2018/19, Devon achieved its highest ever recycling rate at 56% (% household waste sent for reuse, recycling and composting).

Digital Transformation and Business Support

- Digital Transformation and Business Support provide key and essential support to frontline services across the County Council. They include ensuring our communities are able to access vital services through the use of modern digital technology, that DCC staff and members can work effectively using new technology through our ICT service; that vital equipment and supplies are sourced and delivered through our Procurement service; that frontline staff have efficient and effective support through Business Support services and that where buildings are used to deliver critical services they are used safely. Climate Emergency

Conclusion

In spite of significant budget pressures within both Adult and Children's services, careful management of the Budget throughout the year has allowed the authority to end the year with a small underspending of £33,000. Although it has not been possible to make the full budgeted contribution to Reserves the £7.5 millions we have been able to make plus the £2.4 millions from Business Rates have helped to improve the authority's financial resilience.

The financial impact of the Pandemic, the country's departure from the EU, ongoing pressures in Social Care and the funding shortfall in SEND, mean the authority is facing huge financial risk in both the short and medium term. This, coupled with ongoing uncertainty over our Core Funding from Government, makes it very pleasing that we have ended 2019/20 the way we have.

Mary Davis

County Treasurer

26th November 2020

Phil Norrey

Chief Executive

26th November 2020

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the County Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

Responsibilities of the County Treasurer

The County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the County Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The County Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31st March 2020 has been prepared in accordance with the Accounts and Audit (England) Regulations 2015 and that it gives a true and fair view of the financial position of the Authority as at 31st March 2020 and its income and expenditure for the year ended 31st March 2020.

Mary Davis

County Treasurer

26th November 2020

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 26th November 2020.

Chairman of the Audit Committee
26th November 2020

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulation this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure		Notes	2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure
£000	£000	£000			£000	£000	£000
			General Fund continuing operations				
316,790	(72,158)	244,632	Adult Care & Health		338,107	(77,086)	261,021
521,376	(336,385)	184,991	Children's Services		529,423	(325,644)	203,779
123,484	(51,667)	71,817	Communities, Public Health, Environment & Prosperity		128,868	(49,330)	79,538
62,439	(26,277)	36,162	Corporate		68,115	(28,195)	39,920
79,630	(18,724)	60,906	Highways, Infrastructure Development & Waste		70,167	(15,084)	55,083
1,939	(1,887)	52	Non Service		12,090	(1,941)	10,149
1,105,658	**(507,098)**	**598,560**	**Cost of Services**	1,14	**1,146,770**	**(497,280)**	**649,490**
52,246	0	52,246	Other Operating Expenditure	6,11	30,372	0	30,372
66,462	(2,052)	64,410	Financing and Investment Income and Expenditure	12	63,355	(2,522)	60,833
0	(685,319)	(685,319)	Taxation and Non-specific Grant Income	13	0	(683,866)	(683,866)
1,224,366	**(1,194,469)**	**29,897**	**(Surplus) or Deficit on Provision of Services**		**1,240,497**	**(1,183,668)**	**56,829**
		(61,494)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	23			(53,119)
		(150)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	18.2			352
		(91,308)	Remeasurements of the net defined benefit liability	37			(51,338)
		(152,952)	**Other Comprehensive Income & Expenditure**				**(104,105)**
		(123,055)	**Total Comprehensive Income & Expenditure**				**(47,276)**

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the movements of the statutory General Fund Balance (including earmarked reserves) in the year following those adjustments. The 'Net (increase)/decrease shows the movement on the statutory General Fund Balance including earmarked reserves. The statutory General Fund Balance also includes reserves held by schools (School carry forwards); details are included within Note 9.

	General Fund and Earmarked General Fund Balance £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Authority Reserves £000**
Balance at 1st April 2018	**(140,480)**	**(37,703)**	**(13,760)**	**(191,943)**	**418,244**	**226,301**
Movement in reserves during 2018/19						
Total Comprehensive Income & Expenditure	29,897			**29,897**	**(152,952)**	**(123,055)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	(51,179)	(5,239)	1,139	**(55,279)**	55,279	**0**
Net (Increase)/Decrease in 2018/19	**(21,282)**	**(5,239)**	**1,139**	**(25,382)**	**(97,673)**	**(123,055)**
Balance at 31st March 2019 Carried Forward	**(161,762)**	**(42,942)**	**(12,621)**	**(217,325)**	**320,571**	**103,246**
Movement in reserves during 2019/20						
Total Comprehensive Income & Expenditure	**56,829**			**56,829**	**(104,105)**	**(47,276)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	(65,691)	15,280	704	**(49,707)**	49,707	**0**
Net (Increase)/Decrease in 2019/20	**(8,862)**	**15,280**	**704**	**7,122**	**(54,398)**	**(47,276)**
Balance at 31st March 2020 Carried Forward	**(170,624)**	**(27,662)**	**(11,917)**	**(210,203)**	**266,173**	**55,970**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31st March 2019		Notes	31st March 2020	
£000			**£000**	**£000**
1,454,233	Property, Plant & Equipment	16	1,486,327	
2,517	Intangible Assets		4,033	
2,505	Heritage Assets		2,505	
19,853	Long Term Investments	18	29,501	
2,128	Investments in Associates & Joint Ventures	18	2,128	
28,671	Long Term Debtors	17	26,287	
1,509,907	**Long Term Assets**			1,550,781
160,665	Short Term Investments	18	105,842	
872	Inventories		1,263	
100,374	Short Term Debtors	19.2	103,072	
32,865	Cash and Cash Equivalents	21	58,788	
6,806	Assets held for sale	22	21,941	
301,582	**Current Assets**			290,906
(15,301)	Provisions	20	(6,518)	
(11,194)	Short Term Borrowing	18	(290)	
(951)	Revenue Grants Receipts in Advance	32	(8,838)	
(114,097)	Short Term Creditors	19.1	(103,125)	
(141,543)	**Current Liabilities**			(118,771)
(16,123)	Provisions	20	(15,813)	
(511,172)	Long Term Borrowing	18	(511,092)	
(1,208,137)	Other Long Term Liabilities	24	(1,202,433)	
(6,119)	Revenue Grants Receipts in Advance	32	(6,482)	
(31,641)	Capital Grants Receipts in Advance	32	(43,066)	
(1,773,192)	**Long Term Liabilities**			(1,778,886)
(103,246)	**Net Assets/(Liabilities)**			**(55,970)**
(217,325)	Usable Reserves		(210,203)	
320,571	Unusable Reserves	23	266,173	
103,246	**Total Reserves**			**55,970**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2018/19 £000		Note	2019/20 £000	2019/20 £000
29,897	**(Surplus) or Deficit on the Provision of Services**			**56,829**
(158,752)	Adjustment to surplus or deficit on the provision of services for non cash movements	25	(118,202)	
10,824	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	94,999	
(147,928)				(23,203)
(118,031)	**Net cash flows from operating activities**			**33,626**
153,646	Investing activities	26		**(50,484)**
(4,178)	Financing activities	27		**(9,065)**
31,437	**Net (increase)/decrease in cash and cash equivalents**			**(25,923)**
64,302	Cash and cash equivalents opening balance			32,865
32,865	**Cash and cash equivalents at year end**			**58,788**

Notes to the Accounts

1. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's service segments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20	**Net Expenditure Chargeable to the General Fund (Outturn)**	**Adjustments between the funding and accounting basis**	**Internal Transfers**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000	**£000**	**£000**	**£000**
Adult Care & Health	248,778	12,143	100	261,021
Children's Services	155,529	47,259	991	203,779
Communities, Public Health, Environment & Prosperity	35,348	43,943	247	79,538
Corporate	33,998	5,279	643	39,920
Highways, Infrastructure Development & Waste	52,821	1,477	785	55,083
Non Service	19,781	(6,866)	(2,766)	10,149
Net cost of services	**546,255**	**103,235**	**0**	**649,490**
Other Income and Expenditure	(555,117)	(37,544)	0	(592,661)
(Surplus) or Deficit	**(8,862)**	**65,691**	**0**	**56,829**
Opening General Fund Balance, schools and earmarked reserves at 1 April	**(161,762)**			
Add (Surplus)/Deficit on General Fund, Schools and Earmarked Reserves	(8,862)			
Closing General Fund Balance, schools and earmarked reserves at 31 March	**(170,624)**			

Internal Transfers

Some service expenditure has been financed through reserves, through a credit to the service account and a corresponding debit to the non-service account to arrive at the outturn position. Accounting rules require that these transactions between the service accounts and non-service budget are reversed out from the Consolidated Income and Expenditure Account. There is no net effect on the overall outturn position.

2018/19	Net Expenditure Chargeable to the General Fund (Outturn)	Adjustments between the funding and accounting basis	Internal Transfers	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	**£000**	**£000**	**£000**
Adult Care & Health	232,470	12,162	0	244,632
Children's Services	138,399	46,363	229	184,991
Communities, Public Health, Environment & Prosperity	31,765	40,051	2	71,818
Corporate	33,779	1,834	549	36,162
Highways, Infrastructure Development & Waste	57,065	1,752	2,089	60,906
Non Service	20,156	(17,235)	(2,869)	52
Net cost of services	**513,634**	**84,927**	**0**	**598,561**
Other Income and Expenditure	(534,916)	(33,748)	0	(568,664)
(Surplus) or Deficit	**(21,282)**	**51,179**	**0**	**29,897**

Opening General Fund Balance, schools and earmarked reserves at 1 April	**(140,480)**
Add (Surplus)/Deficit on General Fund, Schools and Earmarked Reserves	(21,282)
Closing General Fund Balance, schools and earmarked reserves at 31 March	**(161,762)**

2.Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, as amended by Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, which those regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Local Government Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Local Government Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Policies

Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- The full cost of employees is charged to the accounts for the period within which the employees worked. Accruals are made for salaries and wages, holiday pay, flexi leave and time off in lieu earned but unpaid at the year-end;
- Supplies and services are recorded as expenditure when they are consumed or received. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- Interest receivable on investments and payable on borrowings and is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Accounting for Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

Properties used by schools are recognised in accordance with the indicators of control identified under the requirements of the Code's adoption of IFRS 10, Consolidated Financial Statements. Where assets are owned by Devon County Council and used by community schools, voluntary aided and voluntary controlled schools then they are recognised in the Authority's balance sheet.

Where the title of ownership of voluntary aided and voluntary controlled school assets rests with Trustees of the religious bodies, the Authority does not recognise these assets in its balance sheet.

In the case of foundation schools where assets have been transferred to the schools' governing bodies then the restrictions on the use of those assets in the legal transfer documents are such that the land and buildings are included in the Authority's balance sheet.

The Authority does not recognise the land or buildings used by Academy Schools in its balance sheet. The Authority still owns the assets but has transferred the rights over the assets to the academies through leases of 125 years.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 90 days or less from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and Impairment losses on assets used by a service where there are no accumulated gains in the revaluation reserve against which the losses can be written-off; and
- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation, impairment losses or amortisation. It is, however, required to make an annual contribution from revenue towards the reduction in the overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision) by way of an adjusting transaction with the Capital Adjustment Account in the movement in reserves statement for the difference between the two.

Contingent Liabilities

Contingent liabilities are disclosed by way of note when there is a possible obligation which may require a payment or a transfer of economic benefits. The timing of the economic transfer and the level of uncertainty attaching to the event are such that it would be inappropriate to make a provision.

Council Tax and Non Domestic Rates

The council tax and non-domestic rate income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year, collected by the District Councils (billing authorities). However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before normal retirement date (or an officer's decision to accept voluntary redundancy) and are charged on an accruals basis to the appropriate service or where applicable Non distributable cost line in the comprehensive income and expenditure statement, at the earlier of when the Authority can no longer withdraw an offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserves to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the end of the year.

Post-Employment Benefits

Employees of the Authority are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE),
- The NHS Pension Scheme, administered by the NHS Business Services Authority; and
- The Local Government Pension Scheme, administered by Devon County Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority.

The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet. Children's and Public Health services in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to teachers' and NHS pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Devon pension scheme attributable to the Authority are included in the balance sheet on an actuarial basis using the projected unit method. This is an assessment of the future payments that will be made in relation to retirement benefits earned to date by the employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the iBoxx AA rated corporate bond index.

The assets of the Devon pension fund attributable to the Authority are included in the balance sheet at fair value:

- quoted securities - current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pension liability is analysed into five components:

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked;
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- Net interest on the net defined benefit liability/(asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
    - The net return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Devon Pension Fund- Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- 'those that provide evidence of conditions that existed at the end of the reporting period', where the Statement of Accounts is adjusted to reflect such events, and
- 'those that are indicative of conditions that arose after the reporting period', where the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial instruments

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement in the year of the repurchase or settlement. Where repurchase has taken place as part of a restructuring of a loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where, in previous periods, premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term remaining on the loan against which the premium was payable or the discount receivable when it was repaid. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The following table classifies the Authority's financial assets and how the expected credit loss model is applied:

Financial Asset Classification	**Expected Credit Loss Allowance**
Investments - loans to local authorities	Nil - investments are guaranteed by statute. Code does not allow for credit losses.

Investments - deposits with banks and building societies (> 90 days) Bank deposits (cash and cash equivalents)	Expected credit loss percentage is too small to be material. There is no reduction in the carrying value of the investments
Money Market investments	These investments are held at Fair Value through Profit and Loss (FVPL). Although the investments are immediately available and included as cash equivalents it is possible (if unlikely) that the carrying value could vary from the amount invested.
Trade receivables and leases (debtors)	Historic data for defaults, adjusted for future economic conditions - lifetime losses
Loans to voluntary groups	Nil - Small in number and value - loss allowance is not material
Shares in Exeter Science Park Limited and Skypark	The investments are not material and credit losses are not appropriate for these equity instruments. The Authority has invested in these for economic development and has designated these investments as Fair Value through Other Comprehensive Income (FVOCI).
CCLA investment - pooled property fund	The Authority has designated this investment as FVOCI: the investment is carried at fair value based on bid price provided by CCLA - no loss adjustment is required.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Designation of investments in equity instruments to Fair Value through Other Comprehensive Income (FVOCI)

An equity instrument is an investment where the Authority holds an interest in the net assets of the fund (e.g. remaining assets after deducting all liabilities) and does not have the contractual right to receive cash or another financial asset in return for its investment.

The Authority considers the investments in Exeter Science Park Limited, Skypark and CCLA to be such equity instruments and the default classification for these investments would be Fair Value through Profit and Loss (FVPL).

The Authority elects to designate its equity instruments that would otherwise be measured at FVPL to FVOCI.

There is no impact on the valuation of the investments in the balance sheet but fluctuations in value are treated differently.

Changes in value of FVOCI investments, are recognised in the unusable reserve, Financial Instruments Revaluation Reserve whereas fluctuations in FVPL investments would have been recognised in outturn, the General Fund and usable reserves.

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations which specify that the future economic benefits or service potential embodied in the asset in the form of the grant or condition are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions when conditions have not been satisfied are carried in the balance sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line ('Attributable revenue grants and contributions') or taxation and non-specific grant income ('Non ring-fenced revenue grants and all capital grants') in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the general fund balance in the Movement of Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied it is posted to the Capital Adjustment Account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Heritage Assets

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. Heritage Assets are recognised and measured in accordance with the Authority’s accounting policies on property, plant and equipment with only assets above a £12,000 de-minimis limit recognised. The Authority’s collections of heritage assets are accounted for as follows:

- **Artefacts held at the Devon Records Office**: The Authority’s Record Office holds a number of artefacts with a large proportion falling below the de-minimis threshold. There is no insurance held for the archive collection which is standard practice for this type of service. The more significant collections have been subject to an external valuation and are reported in the balance sheet at market value;
- **Artefacts held by Devon Libraries:** The Devon Library Service securely holds a number of heritage assets in the 'Stack' at Exeter Central Library and are accessible by the public upon request. These items are reported in the balance sheet at insurance valuation. These insurance valuations are updated on an annual basis.
- **Art Collection:** The Art Collection includes paintings (both oil and watercolour) and is reported in the balance sheet at market value.

The Authority’s heritage asset collection is relatively static and acquisitions or donations are rare. When they do occur, acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations provided by an external valuer.

For assets recently purchased or where insurance valuations are available it is the Authority’s policy to recognise the assets using these bases; obtaining an external valuation would involve a disproportionate cost in relation to the benefits to users of the financial statements.

The carrying amounts of heritage assets are reviewed annually where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority’s general policies on impairment. It is the Authority’s policy not to dispose of assets under its ownership, as many of these assets have grant conditions attached to their funding which prohibit sale.

The Authority’s heritage assets are deemed to have indeterminate lives and therefore the Authority does not consider it appropriate to charge depreciation.

Intangible Assets

Expenditure on non-monetary assets that do not have a physical substance but are controlled by the Authority as a result of past events is capitalised when it is expected that future economic benefits or service potential will flow from the intangible assets to the Authority for more than one financial year. Control of an intangible asset will be secured by legal rights which grant access to benefits for a fixed period. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the asset held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion and are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset appears as 'Other operating expenditure' in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement of reserves statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) the Capital Receipts Reserve.

Inventories

Inventories are included in the balance sheet at the lower of cost and net realisable value with the exception of trading account stock which is valued at current cost and stock of road salt which is valued at cost. The cost of inventories is assigned using the First In First Out costing formula.

Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification purposes.

Leases that do not meet the definition of Finance Leases are accounted for as Operating Leases. Rentals payable are charged to the comprehensive income and expenditure statement on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Where the Authority is the lessor, income is credited to cost of services in the comprehensive income and expenditure statement on a straight-line basis over the term of the lease, generally meaning that rentals are credited when they are due.

Finance leases (Authority as Lessor)

The Authority does not include a lease debtor within the balance sheet as the sum is not material. The annual lease income is accounted for within the comprehensive income and expenditure statement as it falls due.

Finance leases (Authority as Lessee)

The Authority does not include a lease liability within the balance sheet as the sum is not material. The annual lease payments are accounted for within the comprehensive income and expenditure statement as they fall due.

Overheads and Support Services

The costs of some support services are recharged to service segments in accordance with the Authority's arrangements for accountability and financial performance. There is no apportionment of overheads in the budget monitoring and reporting of service segments, which is consistent with the reporting of income and expenditure in the Comprehensive Income and Expenditure Statement.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment (PPE) needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the PPE will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its balance sheet as part of PPE.

The original recognition of these assets at fair value (based on the cost to purchase the PPE) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as PPE owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to PPE when the relevant works are actually carried out.

Prior Period Adjustments, Changes to Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or in order to correct a material error. Changes in accounting estimates are accounted prospectively, i.e., in the current and future years affected by the change and do not give rise to prior period adjustments.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority’s financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Property, Plant and Equipment

Property, plant and equipment (PPE) are assets that have physical substance and are held for the provision of services or for administrative purposes for more than one financial year.

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential is charged as an expense when it is incurred.

Expenditure below £50,000 for property and £12,000 for plant, vehicles and equipment is treated as revenue (de minimis) expenditure. Subsequent expenditure below these initial recognition amounts may be capitalised once the asset has been recorded on the fixed asset register. In the context of schools’ plant, vehicle and equipment assets, a de-minimis test is not applied.

Componentisation

The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred, and to revaluations carried out, from 1 April 2010.

The Authority has voluntarily applied component accounting to all relevant assets from 1 April 2010. It is the Authority’s current policy to apply component accounting to its schools asset base as it is only here that componentisation has a material impact on the amount of depreciation charged.

The Valuer has assigned to each school a group of significant common components based upon indices collected by the Royal Institution of Chartered Surveyors (RICS). Each component represents a percentage of the overall asset value and a specific useful economic life. The following standard components and asset lives have been determined:

Component category	Percentage (%)	Asset Life (Years)
Primary Schools		
Sub & Super Structure	54.0	60.0
Services	31.0	20.0
Fittings	5.0	10.0
Finishes	10.0	10.0
Secondary Schools		
Sub & Super Structure	55.0	60.0
Services	30.0	20.0
Fittings	5.0	10.0
Finishes	10.0	10.0
Special Schools		
Sub & Super Structure	52.5	60.0
Services	33.0	20.0
Fittings	4.5	10.0
Finishes	10.0	10.0

Where a component is replaced or restored, the carrying amount of, the old component is derecognised and the new component reflected in the assets carrying amount, subject to the recognition principles of capitalising expenditure.

Measurement after recognition

Assets are initially measured at cost, including any costs that are directly attributable to bringing the asset into working condition for its intended use.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

- Infrastructure, community assets and assets-under-construction are measured at depreciated historical cost;
- Council offices and other assets - current value, determined as the amount that would be paid for the assets in their existing use (EUV - existing use value). Where there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, (such as schools) current value is estimated by using a Depreciated Replacement Cost (DRC) approach.
- School buildings are measured at current value but because of their specialist nature, are measured at depreciated replacement cost
- Surplus assets - the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective.
- Where non-property assets have short useful life or low value (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at current value should be revalued sufficiently regularly (as a minimum every five years) to ensure that their carrying amount is not materially different from their current value at the year end.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. To the extent that revaluation gains reverse a loss previously charged to a service, that service is credited in the Surplus or Deficit on the Provision of Services.

Where decreases in value are identified, they are accounted for as follows:

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);

Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Surplus Assets at Fair Value

All the Council's material surplus properties have been value assessed as Level 2 on the fair value hierarchy for valuation.

Fair Value Hierarchy

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuations are to presume highest and best use. This is the use that brings maximum value that is physically possible, legally permissible and financially feasible.

To increase consistency and comparability the Council categorises its Surplus Asset valuations using a fair value hierarchy for the inputs to valuation techniques. Where inputs from different levels are used, the measurement is categorised at the lowest of the levels that contains a significant input.

Level 1	Quoted prices for identical assets
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (e.g. quoted prices or market evidence for similar assets)
Level 3	Unobservable inputs for the asset (e.g. internal information used to form assumptions about the assumptions that market participants would use)

The presumption that an orderly transaction takes place requires the Council to consider which markets it has access to at the valuation date and determine the principal market (that with greatest volume and level of activity). If there is no principal market, the most advantageous is identified.

In measuring fair values, the valuation techniques must be appropriate for the circumstances and for which sufficient data is available. The use of relevant observable data (inputs) should be maximised and unobservable inputs (estimates) used only where there are no alternatives. Inputs for valuation techniques are selected consistently with the characteristics that the market participants would take into account.

Valuation Techniques Used to Determine Level 2 Fair Values for Surplus Assets

The fair value of the Council's surplus properties has been measured using a market-based approach, which takes into account market data, such as publicly available information about actual events for completed property transactions for similar assets in principal and active markets. These inputs reflect the assumptions that market participants would use when pricing the asset. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant. The Council has recent and continuing experience arising from its Property Rationalisation Programme from which comparable and observable inputs are taken.

Unobservable inputs

Level 3 unobservable inputs are confined to non-operational surplus properties where significant physical, legal and financial constraints restrict the market for direct or indirectly comparable transactions. The economic benefits that may be generated from highest and best use (or the next best alternatives) are limited and market participants are not readily identifiable. Asset pricing assumptions assume de-minimis market values or unsaleable.

Highest and best use (HBU)

The HBU for Level 2 properties groups is assessed as residential or commercial redevelopment and private dwellings.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

When impairment losses are identified, they are accounted for in the following way:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement;

Where an impairment loss is reversed, the reversal is credited to the relevant service line in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

When a school becomes an academy trust the Authority is obliged to grant a 125 year lease for the school land and buildings. The land and buildings are removed from the Authority's balance sheet in line with proper accounting practices, as the beneficial rights associated with ownership have been transferred to the academy.

Non-current assets-held-for-sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset-held-for-sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the 'Other Operating Expenditure' line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the 'Surplus or Deficit on Provision of Services'. Depreciation is not charged on assets-held-for-sale.

If assets no longer meet the criteria to be classified as assets-held-for-sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held-for-sale (adjusted for the depreciation, amortisation or revaluation that would have been recognised had they not been classified as held-for-sale) and their recoverable amount at the date of the decision not to sell.

Disposals

Assets that are to be abandoned or scrapped are not reclassified as "assets-held-for-sale." When an asset is disposed of, decommissioned or transferred to a third party, the carrying amount of the asset in the balance sheet is written-off to the 'Other Operating Expenditure' line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the revaluation reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the usable capital receipts reserve and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Plant, vehicles, furniture and equipment assets are decommissioned at the point the useful economic life expires, with the following modifications:

- The existence of individual items with a purchase cost exceeding £50,000 is verified and retained on the balance sheet where they remain in-use;
- The existence of fleet items (vehicles) is verified and retained on the balance sheet where they remain in use.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (e.g. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition and is charged up to the point of disposal.

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer
- Vehicles, plant, furniture and equipment – straight line over the life of the asset
- Infrastructure – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer

Where an item of property, plant and equipment asset has significant components with different estimated lives, these are depreciated separately.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

The following useful lives have been used in the calculation of depreciation:

Asset Type	Estimated Useful Life
Care Homes	50 to 60 Years
Education – Non Schools	30 to 60 Years
Education – Schools	10 to 60 Years
Energy from Waste facilities	25 to 30 Years
Farm Buildings	50 to 60 Years
Farm Land	Indefinite
Heritage Assets	Indefinite
Highways Depots	50 Years
Infrastructure	10 to 120 Years
Intangible Assets	3 to 5 Years
Libraries	30 to 60 Years
Offices	50 to 60 Years
Social Services	50 to 60 Years
Vehicles, Plant, Furniture	3 to 15 Years
Waste Disposal sites	50 Years

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, this is recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Reserves

Usable Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Balance Fund in Movement in Reserves Statement so that there is no net charge against council tax expenditure.

Unusable Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits that do not represent usable resources for the Authority. These reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Some expenditure can be classified as capital for funding purposes when it does not result in expenditure being carried on the balance sheet as a non-current asset. This is to avoid a charge on the general fund and impact on the year's council tax. Such expenditure is charged to the Comprehensive Income and Expenditure Statement. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund balance and showing this as a reconciling item in the movement in reserves statement. Where under the general provisions of the Code the statutory capital receipt is accounted for within the balance sheet, the statutory requirement is effected by crediting capital receipts reserve and debiting the Capital Adjustment Account.

Revenue Recognition

Council tax and Non Domestic rates

Revenue is recognised when the following conditions have been satisfied:

- the amount of revenue can be measured reliably and
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority

There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, i.e. revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.

The Collection Fund Adjustment Account records the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Funds administered by the Billing Authorities.

Value Added Tax (VAT)

Income and expenditure excludes any amounts relating to VAT except to the extent that it is irrecoverable.

3. Accounting Standards that have been issued but have not yet been adopted

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

There are no changes in accounting requirements for 2020/21 that are anticipated to have a material impact on the Council's financial performance or financial position.

CIPFA/LASAAC deferred the implementation of IFRS 16 Leases for a further year and will apply from 1 April 2021. This decision aligns with the proposals across the public sector in response to COVID-19.

For lessees this will remove the differentiation between finance leases (asset and liability on balance sheet) and operating leases (not on balance sheet and accounted for as an annual cost). Lessees will have to recognise assets subject to leases as right-of-use assets on their balance sheet, along with corresponding lease liabilities (there are exceptions for low-value and short-term leases).

This accounting change is likely have a significant impact on the Authority's balance sheet but this is not yet known and the implementation is subject to any adaptations by the Code for 2021/22. Early adoption of IFRS 16 Leases by local authorities is not permitted by the 2020/21 Code.

4. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 2 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

- In 2015/16 a Better Care Fund was established between Devon County Council, North, East West Devon CCG and South Devon and Torbay CCG, funded and controlled jointly by the three partners. The County Council administers the scheme in that it makes most of the payments on behalf of the Fund. The arrangement has been accounted for as a joint operation - where each partner shows in its accounts its share of the expenditure, assets and liabilities of the Better Care Fund. Further details are disclosed in Note 34, Partnerships and Related Party Transactions. If the Authority had accounted for all the transactions of the Better Care Fund that it had processed (on behalf of all partners) then income and expenditure would have been inflated by £25 millions (£24 millions 2018/19).
- Devon County Council, Plymouth City Council and Torbay Council form the South West Devon Waste Partnership. The partner authorities have a PFI contract for the construction and operation of an energy from waste facility in Plymouth and each partner recognises its share of the asset and liabilities in proportion to gate fees paid by each local authority. Although most of the operator's income is not derived from the three partner local authorities, the partnership exercises sufficient joint control over the arrangement to warrant recognising the facility's assets and liabilities. Note 35 page 98 provides further detail.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statements of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31st March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is increased, depreciation charges reduce and the carrying amount of the assets increase. It is estimated that the annual depreciation charges for buildings, equipment and infrastructure would reduce by £2.9 millions, £4.3 millions and £1.3 millions respectively for every year that useful lives are increased.
	The Council operates a rolling programme of valuation reviews which ensures all assets are revalued at intervals no greater than five years. Specialised property assets are valued on the basis of Depreciated Replacement Cost (DRC) using indices and parameters, including the most recent regional construction cost information published by the RICS Building Cost Information Service (BCIS). The Valuer applies professional judgement to published indices, which can vary quarterly and an assessment of age and obsolescence affecting individual assets.	Of the £713 million of PPE assets measured using a current value basis, £597 millions (84%) were subject to a revaluation in 2019/20. The current market uncertainties raised by RICS might mean there are uncertainties over prior year valuations, the Councils exposure is £116 millions or 16% of the PPE asset base measured at current value. A 1% change in the valuation of those assets revalued in 2019/20 would result in a change in carrying amount of £6 millions. A 1% change in the valuation of those assets not revalued in 2019/20 would result in a change in carrying amount of £1 millions.
	The Valuer has declared a 'material valuation uncertainty' in the valuation report, highlighting the uncertain impact of COVID-19 on the existence and degree of reliability of market evidence. Of the £713 millions net book value of land and buildings subject to valuation, £623 millions (87%) relates to specialised assets valued on a DRC basis, £80 millions (11%) of non-specialised operational assets measured on a existing use value (EUV) basis and £10 millions (1%) of assets measured at fair value (IFRS 13) basis. The Council also has assets qualifying as Assets Held For Sale measured at fair value in accordance with IFRS 5. The current market uncertainties raised by RICS might mean there are uncertainties over these valuations. Assets Held For Sale have a carrying value of £22 millions and all have 2019/20 valuations.	Only £32 millions of property valuations are valued at fair value. A 10% variation in market value leads to an uncertainty of £3.2 millions. PPE valued at DRC and EUV account for such a high perentage of balance sheet valuations and are therefore influenced more by rebuild costs than market values. The Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors (RICS) indices are not currently indicating significant movements to the 2020 Quarter 1 forecast (July 2020).

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham LLP, a firm of consulting Actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.	The actuary has provided sensitivity analysis: a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £43.5 millions and a reduction in life expectancy assumptions of 1 year reduces the pension liability by £88.2 millions. Adjustments to salary and pension increases of 0.1% increase the pension liability of £3.3 millions and £40.4 millions respectively.
	Amounts charged to and income credited to the Comprehensive Income and Expenditure Statement and the valuation of the pension reserve in the Balance Sheet in respect of employee pension benefits are heavily influenced by the estimated future inflation and earnings on investments. The assumptions made in making these estimates are set out in Note 37. The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.	The impact is not expected to be material.

6. Material items of Income and Expenditure

During 2019/20 a material item was included in the Comprehensive Income and Expenditure Statement relating to derecognition of property, plant and equipment assets attributable to schools transferring to academy trust status. These assets were derecognised in accordance with proper accounting practices with nil sale proceeds, resulting in a loss on disposal of £26.085 millions (£51.872 millions in 2018/19), recognised within 'Other Operating Expenditure'.

7. Events after the Reporting Period

The following events are non-adjusting events.

Academy Schools

Between 1st April 2020 and 26th November 2020, the following schools became Academies:

- Colyton Primary School
- Fremington Primary School
- North Molton Primary School

As of 31 March 2020, a further two primary schools have made applications to convert to academy status, both of which have had their applications approved. However, the transfer dates have not been confirmed.

Academies are independent bodies and Devon County Council will cease to be the maintaining authority from the transfer date. All running costs and income relating to these schools will no longer be part of the Council's accounts. It is estimated that the Council's Gross Expenditure and Income will reduce by £2.667 millions per annum.

Devon County will grant a 125-year lease to the Academies to occupy the site where the Authority owns the freehold. The building element of the lease will meet the definition of a finance lease and will no longer be included within the Council's Balance Sheet. The net book value at 31st March 2020 of land and buildings for schools becoming new academies after this reporting period is £6.319 millions.

8. Adjustments between accounting basis and funding basis under regulations

The total comprehensive income and expenditure recognised by the authority in the year is in accordance with proper accounting practice. This note details the adjustments to comprehensive income and expenditure that are required by Statute.

2019/20	**General Fund**	**Capital grants Unapplied**	**Capital Receipts Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(73,730)			73,730
Revaluation Gains / (Losses) on Property Plant & Equipment	2,394			(2,394)
Amortisation of intangible assets	(800)			800
Release of deferred income from Energy from Waste contract	1,844			(1,844)
Capital grants and contributions	90,863	(90,863)		0
Revenue expenditure funded from capital under statute	(14,674)			14,674
Recognition of loan to academy on transfer	1			(1)
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(32,693)			32,693
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	14,432			(14,432)
Capital Expenditure charged to the General Fund Balance	807			(807)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal	3,266		(6,016)	2,750
Use of the Capital Receipts Reserve to finance new capital expenditure			6,720	(6,720)
Adjustments involving the Capital Grants Unapplied Reserve:				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure		106,143		(106,143)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 37)	(100,063)			100,063
Employer's pensions contributions and direct payments to pensioners payable in the year	45,499			(45,499)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(810)			810
Amount by which business rate retention scheme income credited to the Comprehensive Income and Expenditure Statement is different from business rate retention scheme income calculated for the year in accordance with statutory requirements	(2,424)			2,424
Adjustments involving the Financial Instruments Adjustment Account:				
Difference between amounts debited/creditied to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to soft loans, stepped interest rate borrowing and preimiums on the early repayment of debt.	727			(727)
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Expenditure and Income Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(330)			330
Total Adjustments	**(65,691)**	**15,280**	**704**	**49,707**

2018/19

	General Fund	Capital grants Unapplied	Capital Receipts Reserve	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(66,241)			66,241
Revaluation Gains / (Losses) on Property Plant & Equipment	(2,761)			2,761
Amortisation of intangible assets	(493)			493
Release of deferred income from Energy from Waste contract	1,844			(1,844)
Capital grants and contributions	113,080	(113,080)		0
Revenue expenditure funded from capital under statute	(16,733)			16,733
Amounts of Long Term Debtors derecognised, as repaid in prior years	(7)			7
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(59,424)			59,424
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	14,853			(14,853)
Capital Expenditure charged to the General Fund Balance	1,176			(1,176)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal	8,044		(10,794)	2,750
Use of the Capital Receipts Reserve to finance new capital expenditure			11,933	(11,933)
Adjustments involving the Capital Grants Unapplied Reserve:				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure		107,841		(107,841)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 37)	(85,821)			85,821
Employer's pensions contributions and direct payments to pensioners payable in the year	44,207			(44,207)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(774)			774
Amount by which business rate retention scheme income credited to the Comprehensive Income and Expenditure Statement is different from business rate retention scheme income calculated for the year in accordance with statutory requirements	81			(81)
Adjustments involving the Financial Instruments Adjustment Account:				
Difference between amounts debited/creditied to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to soft loans, stepped interest rate borrowing and preimiums on the early repayment of debt.	(2,279)			2,279
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Expenditure and Income Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	69			(69)
Total Adjustments	**(51,179)**	**(5,239)**	**1,139**	**55,279**

9. General Fund Balance, Schools and Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in year. The note shows the movement on all revenue balances and reserves in the year.

	Balance at 31st March 2018 £000	Transfers out 2018/19 £000	Transfers in/within 2018/19 £000	**Balance at 31st March 2019 £000**	Transfers out 2019/20 £000	Transfers in/within 2019/20 £000	**Balance at 31st March 2020 £000**
Affordable Housing	**(182)**			**(182)**			**(182)**
Budget Management	**(34,441)**		(19,089)	**(53,530)**	20	(6,500)	**(60,010)**
Business Rates Pilot			(11,505)	**(11,505)**	503		**(11,002)**
Business Rate Risk Management	**(6,170)**		(6,577)	**(12,747)**		(2,441)	**(15,188)**
Climate Change Emergency			(250)	**(250)**	54		**(196)**
Emergency	**(16,500)**		(1,589)	**(18,089)**			**(18,089)**
Minimum Revenue Provision Risk Reserve	**(10,916)**	10,916					**0**
On Street Parking	**(5,365)**	2,089		**(3,276)**	786		**(2,490)**
Public Health	**(385)**		(227)	**(612)**		(1,686)	**(2,298)**
Service Transformation	**(12,030)**	1,049		**(10,981)**	1,475	(1,000)	**(10,506)**
Total before Carry Forwards	**(85,989)**	**14,054**	**(39,237)**	**(111,172)**	**2,838**	**(11,627)**	**(119,961)**
Non Schools Budget Carry Forwards	**(21,655)**	21,655	(19,630)	**(19,630)**	19,630	(39,512)	**(39,512)**
School Carry Forwards	**(18,142)**	18,142	(16,203)	**(16,203)**	16,203	(16,133)	**(16,133)**
DSG High Needs / SEND					19,772		**19,772**
Total Earmarked including schools	**(125,786)**	53,851	(75,070)	**(147,005)**	58,443	(67,272)	**(155,834)**
General Fund (not earmarked)	**(14,694)**		(63)	**(14,757)**		(33)	**(14,790)**
Total General Fund, Schools and Earmarked Reserves	**(140,480)**	53,851	(75,133)	**(161,762)**	58,443	(67,305)	**(170,624)**

10. Notes to the Expenditure and Funding Analysis

This note explains the adjustments in the Expenditure and Funding Analysis and detailed in Note 8 to move from outturn in the General Fund to the figures in the Comprehensive Income and Expenditure Statement (using generally accepted accounting practice).

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts	**Adjustments for Capital Purposes £000**	**Net Change for Pensions Adjustments £000**	**Other Adjustments £000**	**Total Adjustments £000**
Adult Care & Health	7,121	4,959	63	12,143
Children's Services	35,264	11,909	86	47,259
Communities, Public Health, Environment & Prosperity	43,697	634	(388)	43,943
Corporate	4,077	1,140	62	5,279
Highways, Infrastructure Development & Waste	132	1,653	(308)	1,477
Non Service	(16,276)	8,756	654	(6,866)
Net Cost of Services	74,015	29,051	169	103,235
Other income and expenditure from the Expenditure and Funding Analysis	(65,725)	25,513	2,668	(37,544)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8	**8,290**	**54,564**	**2,837**	**65,691**

2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts	**Adjustments for Capital Purposes £000**	**Net Change for Pensions Adjustments £000**	**Other Adjustments £000**	**Total Adjustments £000**
Adult Care & Health	7,678	4,375	109	12,162
Children's Services	38,035	8,690	(362)	46,363
Communities, Public Health, Environment & Prosperity	39,403	611	37	40,051
Corporate	3,140	(1,414)	108	1,834
Highways, Infrastructure Development & Waste	132	1,581	39	1,752
Non Service	(16,696)	(539)	0	(17,235)
Net Cost of Services	71,692	13,304	(69)	84,927
Other income and expenditure from the Expenditure and Funding Analysis	(65,030)	28,310	2,972	(33,748)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8	**6,662**	**41,614**	**2,903**	**51,179**

Adjustments for Capital Purposes

The adjustments include depreciation, impairment and revaluation gains and losses in the services line, and for other income and expenditure:

- adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- deducts the statutory charges for capital financing i.e. Minimum Revenue Provision
- adjusts for capital grants, where income is not recognised under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Other Income and Expenditure (Financing and investment income and expenditure), the net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

There are other adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- the General Fund is adjusted for the timing differences for premiums and discounts as disclosed in the Financial Instruments Adjustment Account (Note 23)
- adjusts for what is chargeable under statutory regulations for council tax and business rates (amounts that were projected to be received at the start of the year) and the income recognised under generally accepted accounting practices in the Code (what was actually received). This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

The following table shows the revenue transactions (external and internal) for each reporting segment. It does not include grant income. The Comprehensive Income and Expenditure Statement only includes income and expenditure with external organisations in accordance with proper accounting practice. Internal recharges between segments (other services) are excluded from the CIES.

2018/19 Revenue from External Customers £000	**2018/19 Revenue from Transactions with Other Services £000**		**2019/20 Revenue from External Customers £000**	**2019/20 Revenue from Transactions with Other Services £000**
(49,697)	(34)	Adult Care & Health	(53,911)	(116)
(20,355)	(6,916)	Children's Services	(18,170)	(15,280)
(10,882)	(2,302)	Communities, Public Health, Environment & Prosperity	(10,031)	(2,873)
(16,713)	(24,158)	Corporate	(19,341)	(26,928)
(13,054)	(4,172)	Highways, Infrastructure Development & Waste	(14,623)	(2,955)
(110,701)	**(37,582)**		**(116,076)**	**(48,152)**

11. Other Operating Expenditure

2018/19 £000		2019/20 £000
51,350	(Gains)/losses on the disposal of non current assets	29,427
896	Levies	945
52,246		**30,372**

12. Financing and Investment Income and Expenditure

2018/19 £000		2019/20 £000
38,152	Interest payable and similar charges	37,842
28,310	Pensions interest cost and expected return on pensions	25,513
(2,052)	Interest receivable and similar income	(2,522)
64,410		**60,833**

13. Taxation and Non Specific Grant Income

2018/19 £000		2019/20 £000
(385,923)	Council tax income	(405,512)
16,222	Business Rates Retention Scheme (Top-up)/Tariff	(79,360)
(141,709)	Business Rates Retention Scheme Local Element	(23,746)
(60,829)	Non-ringfenced government grants	(84,385)
(113,080)	Capital grants and contributions	(90,863)
(685,319)		**(683,866)**

14. Expenditure and Income Analysed by Nature

	2018/19	2019/20
Expenditure	**£000**	**£000**
Employee expenses	363,442	387,963
Other service expenses	672,721	686,671
Precepts & levies	896	945
Depreciation, amortisation and impairment	69,495	72,136
Interest payable	26,041	26,043
Pensions Financing and Investment Income and Expenditure	28,310	25,513
PFI financing charges	12,111	11,799
(Gain) or Loss on Disposal of Non Current Assets	51,350	29,427
Total Expenditure	1,224,366	1,240,497
Income		
Fees, charges & other service income	(125,975)	(137,548)
Interest and investment income	(2,052)	(2,522)
Income from council tax	(385,923)	(405,512)
Business rates retention scheme - Local and top up grant	(125,487)	(103,106)
Government grants and contributions	(555,032)	(534,980)
Total Income	(1,194,469)	(1,183,668)
(Surplus) or deficit on the provision of services	**29,897**	**56,829**

15. Revenue from Contracts with Service Recipients

Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are set out in the following table. Revenue for Adult Care and Health is recognised at the end of the period the service has been provided.

2018/19 Revenue from Contracts with Service Recipients £000	2018/19 Other Revenue £000	2018/19 Total Revenue from External Customers £000		2019/20 Revenue from Contracts with Service Recipients £000	2019/20 Other Revenue £000	2019/20 Total Revenue from External Customers £000
(30,865)	0	(30,865)	Adult Care and Health (Residential)	(33,991)	0	(33,991)
(18,269)	(563)	(18,832)	Adult Care and Health (other)	(19,265)	(655)	(19,920)
(12,250)	(2,043)	(14,293)	Education and Learning (schools)	(12,866)	(45)	(12,911)
(33,867)	(12,844)	(46,711)	Other	(34,112)	(15,142)	(49,254)
(95,251)	**(15,450)**	**(110,701)**	**Total**	**(100,234)**	**(15,842)**	**(116,076)**

16. Property Plant and Equipment (PPE)

Movements in 2019/20:	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1st April 2019	710,565	31,980	1,169,892	2,945	13,203	20,518	**1,949,103**
Additions	9,759	4,528	69,002	9	2,237	13,450	**98,985**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	11,643				15,633		**27,276**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	33				(124)		**(91)**
Derecognition - Disposals	(17,240)	(3,349)			(3,810)	(10,279)	**(34,678)**
Assets reclassified (to)/from Held for Sale	(750)				(16,766)		**(17,516)**
Other movements in cost or valuation	2,116		253		(698)	(2,522)	**(851)**
At 31st March 2020	**716,126**	**33,159**	**1,239,147**	**2,954**	**9,675**	**21,167**	**2,022,228**
Accumulated Depreciation and Impairment							
1st April 2019	(11,005)	(19,330)	(464,467)		(68)		**(494,870)**
Depreciation Charge	(30,955)	(3,841)	(38,934)				**(73,730)**
Depreciation written out to the Revaluation Reserve	25,843						**25,843**
Depreciation written out to the Surplus/Deficit on the provision of services	2,745						**2,745**
Derecognition - Disposals	889	3,154			68		**4,111**
Other movements in depreciation and impairment							**0**
At 31st March 2020	**(12,483)**	**(20,017)**	**(503,401)**	**0**	**0**	**0**	**(535,901)**
Net Book Value							
At 31st March 2020	**703,643**	**13,142**	**735,746**	**2,954**	**9,675**	**21,167**	**1,486,327**
At 1st April 2019	**699,560**	**12,650**	**705,425**	**2,945**	**13,135**	**20,518**	**1,454,233**

Movements in 2018/19:	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1st April 2018	711,727	30,921	1,095,589	2,923	12,917	21,796	**1,875,873**
Additions	17,622	4,063	70,441	22	290	9,712	**102,150**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	34,727				1,073		**35,800**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	(5,763)						**(5,763)**
Derecognition - Disposals	(54,366)	(3,139)			(1,077)		**(58,582)**
Assets reclassified (to)/from Held for Sale	(508)						**(508)**
Other movements in cost or valuation	7,126	135	3,862			(10,990)	**133**
At 31st March 2019	**710,565**	**31,980**	**1,169,892**	**2,945**	**13,203**	**20,518**	**1,949,103**
Accumulated Depreciation and Impairment							
1st April 2018	(12,902)	(18,260)	(430,181)		(38)		**(461,381)**
Depreciation Charge	(28,064)	(3,861)	(34,286)		(30)		**(66,241)**
Depreciation written out to the Revaluation Reserve	25,694						**25,694**
Depreciation written out to the Surplus/Deficit on the provision of services	3,001						**3,001**
Derecognition - Disposals	1,266	2,835					**4,101**
Derecogntion - Other							**0**
Other movements in depreciation and impairment	0	(44)					**(44)**
At 31st March 2019	**(11,005)**	**(19,330)**	**(464,467)**	**0**	**(68)**	**0**	**(494,870)**
Net Book Value							
At 31st March 2019	**699,560**	**12,650**	**705,425**	**2,945**	**13,135**	**20,518**	**1,454,233**
At 1st April 2018	**698,825**	**12,661**	**665,408**	**2,923**	**12,879**	**21,796**	**1,414,492**

Revaluations

The Authority maintains a rolling programme of revaluations that ensures all PPE required to be measured at fair value is revalued at least every five years. All valuations are carried out by our qualified external valuer, John Penaligon FRICS, NPS South West Ltd. All valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The current value of PPE at 31 March 2020 is £1,486 millions.

The effective date for all valuations is 31 December 2019 for the financial year 2019/20 and the basis of valuation is explained in the Statement of Accounting Policies.

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under construction £000	Total £000
Valued at Historical Cost:		33,159	1,239,147	2,954	0	21,167	1,296,427
Valued at Current Value in:							
2019/20	595,093	0	0	0	9,675	0	604,768
2018/19	41,794	0	0	0	0	0	41,794
2017/18	47,193	0	0	0	0	0	47,193
2016/17	18,529	0	0	0	0	0	18,529
2015/16	13,517	0	0	0	0	0	13,517
Total	**716,126**	**33,159**	**1,239,147**	**2,954**	**9,675**	**21,167**	**2,022,228**

Removal, dismantling and restoration costs

An initial estimate of the costs of landfill decommissioning and aftercare are recognised within the measurement of landfill assets in accordance with the CIPFA Code.

Unavoidable statutory obligations to prevent redundant landfill sites damaging the environment will exist for a further forty years. The costs have been provided for in these accounts and first recognised in 2013/14. That element falling due within one year is included as a provision in current liabilities while the remainder is similarly included in long term liabilities.

Derecognitions and disposals

The Authority derecognised in 2019/20 property, plant and equipment assets with a carrying value of £32.7 millions, which are analysed as follows:

Derecognition category	Carrying value £000	Proportion %
Transfers to academy and other school movements	26,085	79.8%
Other disposals	6,608	20.2%
Total	**32,693**	**100%**

Capital Commitments

This statement contains details of major capital contracts with significant commitment costs flowing into future financial years.

Contract Name	Project Purpose	2020/21 £000	2021/22 £000	Total Commitment 2020/21 Onwards £000
Marsh Barton Station	Construction of railway station	1,711	8,520	10,231
A382 Corridor Improvement Phase 1	Increase highway capacity	5,186		5,186
Sherford Main Street Phase 2	Construction of Sherford main street	1,840		1,840
A3079 Fowley Cross Resurfacing	Carriageway resurfacing	1,262		1,262
Exeter Science Park-Park and Change	Reduction of highway congestion	972		972
Exeter E4 Strategic Cycle Route - Phase 2	Connecting Bettysmead Playing Fields to Pinhoe Road	720		720
Exeter E4 Strategic Cycle Route - Phase 3	Bridge across Summer Lane	579		579
A361 North Devon Link Road-Advanced Works	Advance actions to facilitate widening of the A361 North Devon Link Road	512		512
B3230 Muddiford Leat Stabilisation	Embankment stabilisation	308		308
Countess Wear Roundabout Resurfacing	Carriageway resurfacing	299		299
Moor Lane Roundabout Resurfacing	Carriageway resurfacing	277		277
Ivybridge Flood Risk Management	Reduce incidence of flooding	230		230
Moor Lane Roundabout Improvements	Increase highway capacity	213		213
F120 Alma Footbridge, Sidmouth	Pier strengthening	207		207
Total		**14,316**	**8,520**	**22,836**

17. Long Term Debtors

31st March 2019 £000		31st March 2020 £000
117	Academy Schools	55
1,401	Skypark LLP	1,401
27	Magistrates	20
27,051	Unfunded pensions	24,736
75	Devon Disability Collective	75
28,671		**26,287**

18. Financial Instruments

The designation of investments as Fair Value, Other Comprehensive Income (FVOCI) requires any future fluctuations in fair value to be recognised in an unusable reserve called the, Financial Instruments Revaluation Reserve (FIRR). Any gain or loss will be recognised in usable balances (and outturn) only when the investment is sold.

The Authority holds the CCLA investment for the long term and not for short term selling or short term unrealised gains based on the annual fluctuations of fair value. The fair value is based on a notional bid price guide provided by the issuer each year. It does not reflect the price at which the issuer is obliged to buy back the investment. The investments in NPS and Exeter Science Park were last revalued in 2010/11.

18.1 Financial instrument balances

The financial assets and liabilities disclosed in the Balance Sheet are made up of the following categories of financial instruments:

31 March 2019		Financial Assets	31 March 2020	
Long-Term	**Current**		**Long-Term**	**Current**
£000	**£000**		**£000**	**£000**
		Investments		
10,000	160,557	Amortised cost	20,000	105,735
11,981	108	Fair Value through other comprehensive income - designated equity instruments	11,629	107
21,981	**160,665**	**Total Investments**	**31,629**	**105,842**
		Cash		
0	46,830	Cash flow investments (cash equivalents) - Money Market Funds - Fair Value through Profit and Loss		68,010
	0	Cash flow investments (cash equivalents) - Fixed interest / notice - amortised cost		12,500
0	(13,965)	Cash (overdraft at bank)		(21,722)
0	**32,865**	**Total Cash**	**0**	**58,788**
		Debtors		
1,593	**50,883**	**Amortised cost**	**1,531**	**63,830**
27,078	49,491	Debtors that are not financial instruments	24,756	39,242
28,671	100,374	Total Debtors	26,287	103,072
23,574	**244,413**	**Total Financial Assets**	**33,160**	**228,460**

The Authority's lending to other local authorities, banks and other financial institutions is invested solely for interest and the return of principal. These investments are measured at amortised cost at 31st March 2020. The Authority has not applied any loss adjustment for credit risk for this lending.

Long-Term £000	Current £000		Long-Term £000	Current £000
		Borrowings - Amortised Cost		
(436,349)	(10,896)	Financial liabilities at amortised cost - PWLB	(436,349)	
(25,318)	(8)	Financial liabilities at amortised cost - previous LOBO* converted to fixed interest	(25,315)	
(49,505)	(290)	Financial liabilities at amortised cost - LOBOs*	(49,428)	(290)
(511,172)	**(11,194)**	**Total Borrowings**	**(511,092)**	**(290)**
		Other Long Term Liabilities - Amortised Cost		
(119,418)	0	PFI Liability	(114,647)	0
(1,831)	0	Financial Guarantee Liability	(1,831)	
(121,249)	**0**	Total carried at amortised cost included in Other Long Term Liabilities	**(116,478)**	**0**
(1,086,888)		Other Long Term Liabilities that are not financial instruments	(1,085,955)	
(1,208,137)	0	**Total Other Long Term Liabilities**	(1,202,433)	0
		Creditors (payable within 12 months)		
	(80,600)	Financial liabilities at amortised cost		(74,575)
	(4,020)	PFI Liability		(4,771)
0	**(84,620)**	Total included in Creditors		**(79,346)**
	(29,477)	Creditors that are not financial instruments		(23,779)
0	(114,097)	Total Creditors	0	(103,125)
(632,421)	**(95,814)**	**Total Financial Liabilities**	**(627,570)**	**(79,636)**

* Lender's Option Borrower's Option

PWLB loans are at a fixed rate of interest for the duration of the loan. No additional loans have been taken out during the year. Interest accrued but unpaid at 31 March is added to the borrowings as current or short term - payable within 12 months

Note 38, Contingent Liabilities discloses the financial impact of guarantees that the Authority has entered into, including the one in relation to Exeter Science Park.

18.2 Financial instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2018/19 (Surplus) or Deficit on the Provision of Services £000	2018/19 Other Comprehensive Income and Expenditure £000		2019/20 (Surplus) or Deficit on the Provision of Services £000	2019/20 Other Comprehensive Income and Expenditure £000
		Interest Payable and similar charges		
38,152		Interest Expense - Financial Liabilities measured at amortised cost	37,842	
0		Impairment - Financial Assets measured at amortised cost	1,088	
38,152	**0**	**Interest Payable and similar charges**	**38,930**	**0**
		Interest income		
(1,297)		Financial assets measured at amortised cost	(1,814)	
(328)		Financial assets measured at Fair Value through Profit and Loss (Money Market)	(282)	
(427)		Investments in equity instruments designated at fair value through other comprehensive income (CCLA)	(426)	
(2,052)	**0**	**Total interest income and similar revenue**	**(2,522)**	**0**
(126)		Reversal of impairment losses		
(2,178)	**0**	**Total interest income and similar revenue**	**(2,522)**	**0**
		Net (gains)/losses on		
	(150)	Investments in equity instruments designated at fair value through other comprehensive income (CCLA)		352
0	**(150)**	**Total net (gains)/losses**	**0**	**352**

Impairment relates to movement in the bad debt provision.

18.3 Fair value assets and liabilities

Fair Value Hierarchy

The valuation of financial instruments has been classified in three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date. Only the Authority's cash is classified as level 1.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Unobservable inputs for the asset or liability.

Fair value of assets and liabilities held at amortised cost

Loans and receivables, total borrowing and long-term creditors are carried in the Balance Sheet at amortised cost. The fair value is assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values for Public Works Loans Board (PWLB), LOBO's, Market Rate and PFI have been calculated by reference to the new borrowing rate at 31st March 2019 and 2020 (Level 2). For PFI and similar contracts, there are unobservable inputs regarding the accounting estimate of the element of the unitary charge that relates to the liability (Level 3).
- No early repayment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value. This applies to the following classified at amortised cost, within Level 2 of the fair value hierarchy:
    - Creditors payable within one year (billed amount / estimated accrual)
    - Debtors receivable within one year (adjusted for expected credit loss)
    - Short term investments (principal invested plus accrued interest).

All financial liabilities are held at amortised cost. The fair values of financial liabilities excluding creditors payable within one year and the financial guarantee are as follows:

31st March 2019			**31st March 2020**	
Carrying amount	**Fair value**	**Financial Liabilities held at amortised cost**	**Carrying amount**	**Fair value**
£000	**£000**		**£000**	**£000**
		Level 2		
(447,245)	(668,339)	PWLB	(436,349)	(628,784)
(49,795)	(74,982)	LOBO's	(49,718)	(73,192)
(25,326)	(44,835)	Market Debt, Fixed Rate	(25,315)	(44,704)
(522,366)	**(788,156)**		**(511,382)**	**(746,680)**
		Level 3		
(123,438)	(231,427)	PFI and similar contracts	(119,418)	(214,682)
(645,804)	**(1,019,583)**		**(630,800)**	**(961,362)**

The PWLB carrying amount included interest due at 31st March 2019 of £10.896 millions not being paid until the first working day of April but in 2019/20 the interest was paid before 31st March 2020 and there is no interest accrual.

The fair values of the loans are higher than the carrying amounts. This is due to current loan rates being lower than those available at the time the loans were taken out. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay compared with a loan taken out at today’s rates. The fair value of the PFI liability is higher than the amount that is carried in the balance sheet. This is due to current loan rates being lower than the interest rate implied within the PFI contracts.

The following table analyses the financial instruments into hierarchies:

31st March 2019			Financial Assets	31st March 2020		
Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Investments			
	170,557		Amortised Cost		125,735	
	9,961	2,128	Fair Value through other comprehensive income - designated equity instruments		9,608	2,128
0	**180,518**	**2,128**	**Total Investments**	**0**	**135,343**	**2,128**
			Cash			
46,830			Cash flow investments (cash equivalents) - FVPL	68,010		
			Cash flow investments (cash equivalents) - Fixed interest / notice - amortised cost	12,500		
(13,965)			Cash (overdraft at bank)	(21,722)		
32,865	**0**	**0**	**Total Cash**	**58,788**	**0**	**0**
			Debtors - Current and Long Term			
	52,476		Amortised cost		**65,361**	
32,865	**232,994**	**2,128**	**Total Financial Assets**	**58,788**	**200,704**	**2,128**

31 March 2019			Financial Liabilities	31 March 2020		
Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Borrowings			
	(447,245)		Financial liabilities at amortised cost - PWLB		(436,349)	
	(25,326)		Financial liabilities at amortised cost - previous LOBO converted to fixed interest		(25,315)	
	(49,795)		Financial liabilities at amortised cost - LOBOs		(49,718)	
0	**(522,366)**	**0**	**Total Borrowings**	**0**	**(511,382)**	**0**
			Other Long Term Liabilities			
		(119,418)	PFI Liability - See note 35			(114,647)
		(1,831)	Financial Guarantee Liability			(1,831)
0	**0**	**(121,249)**	**Total included in Other Long Term Liabilities**	**0**	**0**	**(116,478)**
			Creditors (payable within 12 months)			
	(80,600)		Financial liabilities at amortised cost		(74,575)	
		(4,020)	PFI Liability - See note 35			(4,771)
0	**(80,600)**	**(4,020)**	**Total included in Creditors**	**0**	**(74,575)**	**(4,771)**
0	**(602,966)**	**(125,269)**	**Total Financial Liabilities**	**0**	**(585,957)**	**(121,249)**

18.4 Disclosure of nature and extent of risks arising from financial instruments

Risk management is carried out by a central treasury team under policies approved for overall risk management as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The County Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The current Treasury Management Policy Statement together with the Statement of Treasury Management Practices (TMPs) was formally adopted by the County Council on 15th February 2018. TMPs set out the manner in which the Authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The County Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

A variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Council to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Council to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down. During 2015/16 the Council reviewed these alternatives and concluded that investment in a commercial property fund would be a prudent way to diversify risk and achieve a higher yield.

The overall aims of the Authority's Annual Investment strategy continue to be to:

- Limit the risk to the loss of capital (credit and counterparty risk)
- Ensure that funds are always available to meet cash flow requirements; (liquidity risk)
- Maximise investment returns, consistent with the first two aims; (interest, inflation, exchange rate risks) and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

The annual Treasury Management Strategy and Prudential Indicators were approved by the Authority on 21st February 2019. The Authorised Limit for external debt for 2019/20 was initially set at £776.3 millions for borrowing and other long term liabilities. Actual external debt for 2019/20 was £631.3 millions.

Credit and Counterparty Risk

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and limits its investment activities to the instruments, methods and techniques referred to in TMP4 'Approved Instruments, Methods and Techniques'. It also recognises the need to have, and maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

The County Council's arrangements are formulated to restrict the exposure to risk by taking account of the credit standing of counterparties, and setting limits to different types of borrowers.

The credit ratings of all three major rating agencies (Fitch, Moody's and Standard & Poor's) will be used to ensure that commercial institutions satisfy the requirements of the current policy. In essence the Authority looks for the highest rating from banks and sets lending limits against each one. Banks and UK Building Societies that do not attract these ratings are not considered at all. The actual ratings sought by the Authority may be varied as part of the regular review of lending policy and counterparties.

Security is achieved by the creation of an 'Approved List of Counterparties'. These are the banks, building societies, money market funds and other public bodies with which the Authority is prepared to deposit funds. In preparing the list, a number of criteria is used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

The following table summarises the current 'Approved List' criteria.

Counterparty Type		Fitch	Moody's	Standard & Poor's	Credit Limit
UK Banks					
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building Societies					
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Non-Eurozone Overseas Banks					
	Sovereign Rating of	AAA	Aaa	AAA	
	and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bodies					
Central Government					
	– Debt Management Office				Unlimited
Local Government					
	– County Councils				£10 million
	– Metropolitan Authorities				£10 million
	– London Boroughs				£10 million
	– English Unitaries				£10 million
	– Scottish Authorities				£10 million
	– English Districts				£5 million
	– Welsh Authorities				£5 million
Fire & Police Authorities					£5 million
Money Market Funds		AAA	Aaa	AAA	£30 million
CCLA Property Fund					£30 million

The List of Approved Counterparties is kept under close review and is subject to amendment in the light of changes to credit ratings, takeovers and mergers, or changes to the type of institution.

The financial press and other sources are monitored with a view to discovering cases where an institution on the List is in any difficulty, financial or otherwise. If appropriate, any organisation will be immediately suspended from the list until such time that they demonstrate their creditworthiness. The decision to suspend a counterparty is made by the Investment Manager, and notified to other officers by the issue of a revised Approved List.

Funds available to the County for investment are substantial, and the current lending policies ensure a balance of there being no difficulty placing funds, whilst at the same time minimising the credit risk.

The Authority does not generally allow credit to customers, the amount owed to the Authority can be analysed by age as follows:

	Amount at 31 March 2020	Historic experience of default	Historic experience adjusted for market conditions at 31 March 2020	Estimated exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	168,010	0.00%	0.01%	12
Deposits with local authorities	37,500	0.00%	0.00%	0
Debtors at amortised cost	67,027	0.31%	4.77%	3,197
				3,209

The investment with CCLA of £10 millions is not assessed for exposure to default and uncollectability but is subject to price risk which is explained later in this note.

Debtors measured at amortised cost	**31 March 2019**	**31 March 2020**
	£000	£000
Less than three months	36,648	44,698
Three to six months	2,933	8,330
Six months to one year	4,812	5,242
More than one year	8,598	8,757
	52,991	67,027
Provision for bad debts - Impairment	(2,108)	(3,197)
Long Term Debtors not yet due	1,620	1,531
	52,503	65,361

The most significant element of longer term debt is residential debt consisting of a number of deferred purchase agreements which allow care home costs to be secured against the borrower's property. The following tables show the level of this collateral.

Debt 31 March 2019	**Non Residential**	**Residential**	**Secured**	**Unsecured**
	£000	**£000**	**£000**	**£000**
less than 3 months	33,435	3,213	1,554	35,094
more than 3 months	4,044	12,299	9,597	6,746
Total	**37,479**	**15,512**	**11,151**	**41,840**

Debt 31 March 2020	**Non Residential**	**Residential**	**Secured**	**Unsecured**
	£000	**£000**	**£000**	**£000**
less than 3 months	38,635	6,063	2,641	42,057
more than 3 months	9,009	13,320	9,524	12,805
Total	**47,644**	**19,383**	**12,165**	**54,862**

Liquidity Risk

The Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business and service objectives.

The daily cash flow is managed by officers in order to 'smooth' the flow of funds into and out of the Authority, ensuring best returns on surplus funds, whilst minimising borrowing costs on days where there is a shortage. Borrowing and lending is generally undertaken in periods of under one month to ensure as far as is possible that on no one day should there be a requirement to have to fund shortages in excess of £1 millions. Days when it is known that large outflows of money will take place e.g. payroll dates, are obvious dates to ensure there is sufficient liquidity.

Funds may be earmarked for specific purposes or may be general balances, and this will be a consideration in determining the period over which the investment will be made.

The Authority has a self-imposed limit of ensuring that at least 15% of deposits will be realisable within one month.

A requirement of the Prudential Code is to establish an indicator of the total principal sum invested for a period longer than 364 days, and to state the basis used in determining the amount. The purpose of this indicator is to help the Authority to contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

The limit on investments over 364 days will be set at no more than 20% of the total investments outstanding at any time or £30 millions whichever is the lower.

The maturity analysis of borrowing is as follows:

31st March 2019 £000		**31st March 2020 £000**
(11,194)	Less than one year	(290)
	Between one and two years	
	Between two and five years	
(39,610)	Between five and ten years	(39,610)
(13,412)	Between ten and fifteen years	(44,571)
(99,172)	Between fifteen and twenty years	(68,013)
(50,403)	Between twenty and twenty-five years	(50,403)
(8,903)	Between twenty-five and thirty years	(8,903)
(111,282)	Between thirty and thirty-five years	(153,687)
(119,946)	Between thirty-five and forty years	(142,664)
(65,122)	Between forty and forty-five years	0
(519,044)		**(508,141)**

Short term creditors of £103.125 millions (£114.097 millions at 31 March 2019) are due to be paid in less than one year.

Interest Rate Risk

Borrowing at fixed rates of interest for long periods can give the opportunity to lock into low rates and provide stability, but means that there is a risk of missing possible opportunities to borrow at even lower rates in the medium term.

Variable rate borrowing can be advantageous when rates are falling but also means that there is a risk of volatility and a vulnerability to unexpected rate rises.

Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high.

The Authority's policy has been to borrow at fixed rates of interest when rates are considered attractive, mainly from the Public Works Loan Board (PWLB) or the Money Market. This policy is reassessed annually as part of the adoption of the Treasury Policy Statement.

The Prudential Indicators for 2019/20 and beyond are set out in the following table:

	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100	70
Limits on borrowing at variable interest rates	30	0
Percentage of Fixed Rate Debt maturing in:		
Under 12 months	20	0
12 Months to within 24 months	25	0
24 Months to within 5 Years	30	0
5 years and within 10 Years	35	0
10 years and within 20 years	45	0
20 years and within 35 years	60	0
35 years and within 50 years	75	20

Market Loans, usually in the form of Lender's Option Borrower's Option (LOBOs), offer an alternative to borrowing from the PWLB. Here money is borrowed for an initial period against the issue of a Bond and gives the Lender the Option of varying the rate at the end of the period. One of the lenders has waived its right to this option. If this Option is taken, the Authority as Borrower can in turn agree to the new rate, or repay the loan without penalty. The flexibility offered by such loans can be a great help in managing the risk of fluctuations in interest rates. The lender, who has the choice to (or not to) exercise the first option, has to be seen as having the greater control of the arrangement. However, as the average rate of interest of 5.95% for LOBOs is above the current Bank of England base rate then it is highly unlikely in the near to medium term that the lender will exercise this option.

On the investment side, the use of Call Accounts, Notice Money, Money Market Funds, and Callable Deposits all introduce a degree of flexibility not offered by fixed term investments.

Movement in interest rates have a complex impact on the Authority. For instance a rise in interest rates would have the following effects:

- Borrowing at fixed rate – the fair value of the borrowings will fall
- Investments at variable rate – the interest income credited to the income and expenditure statement will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the income and expenditure statement. However, changes in interest receivable on variable rate investments will be posted to the income and expenditure statement and affect the general fund balance.

The PFI Liability and most of the Authority's loans and investments are fixed rate. Consequently, the impact of say a 1% increase in interest rates would have an impact only on variable rate investments by increasing interest receivable by £680,000 if the investments were held for a year.

The formula grant received from central government contains an element for funding debt charges but as the formula is now fixed for at least one year ahead any changes in interest rate would have no effect in the short term.

The impact of a 1% fall in interest rates would be as above with the movements being reversed.

Exchange Rate Risk

The Authority manages its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

It achieves this objective by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of exchange rates.

The risk from fluctuating exchange rates is not usually material as far as the Authority is concerned, as there is currently very little of either income or expenditure transacted in currencies other than Sterling.

Inflation Risk

The effects of varying levels of inflation is considered by the Authority as an integral part of its strategy for managing its overall exposure to risk.

During the current period of low and stable inflation, there is little requirement for active consideration of its impact. The key objectives are that investments reap the highest real rate of return, with debt costing the lowest real cost. Should this change, projections of inflation will become part of the debt and investment decision-making criteria, both strategic and operational.

Market Risk

The Authority seeks to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

The majority of lending is in the form of cash deposits. However, a proportion of the Council's funds may be invested in alternative forms of investment where the capital value may fluctuate. These are managed in such a way as to minimise the risk of financial loss. The potential list of alternative forms of investment includes UK Government Gilts, bond funds and property funds, but only those specified within the annual Treasury Management Strategy are permitted.

Price Risk

The Authority does not generally invest in equity shares but does have two £1 shares in NPS (SW) Ltd, valued at £247,000 and has an equity investment in Exeter Science Park Ltd to £1.881 millions (£1.881 millions 31/3/19). These shares are recognised in the balance sheet at £2.128 millions (£2.128 millions 31/3/19).

In 2015/16, the Authority invested £10 millions in the Local Authorities' Property Fund (CCLA). Changes in market value are recognised in the Financial Instruments Revaluation Reserve and do not affect the General Fund. Only when the investment is disposed of, is any revaluation balance recognised in the General Fund.

Variations in price are not a significant risk for the Authority.

19. Creditors and Debtors

19.1 Creditors

These represent sums of money owed by the County Council for goods and services received during the year and not paid for by 31 March, or where money has been received by the County Council in advance.

31st March 2019 £000		31st March 2020 £000
(18,508)	Central Government	(11,164)
(9,098)	Other Local Authorities	(9,545)
(4,210)	NHS Bodies	(6,940)
(82,281)	Other Entities & Individuals	(75,476)
(114,097)		**(103,125)**

19.2 Debtors

These represent sums of money owed to the County Council for goods and services supplied during the year and not paid for by 31 March, or for payments in advance by the County Council.

31st March 2019 £000		31st March 2020 £000
7,645	Central Government	4,754
15,076	Other Local Authorities	13,872
3,388	NHS Bodies	4,563
7	Public Corporations & Trading Funds	7
74,258	Other Entities & Individuals	79,876
100,374		**103,072**

19.3 Debtors for Local Taxation

Included in "other entities and individuals" (Debtors) are the debtors (net of any provision for bad debts) for council tax and business rates. The past due but not impaired amount for local taxation (council tax and non-domestic rates) is analysed by age as follows:

31st March 2019			Council Tax	31st March 2020		
Gross Arrears	Provision for bad debts	Net debtor		Gross Arrears	Provision for bad debts	Net debtor
£000	£000	£000		£000	£000	£000
7,954	(1,690)	6,264	Less than one year	9,036	(2,191)	6,845
6,584	(3,045)	3,539	Between one year and three years	7,215	(3,898)	3,317
4,126	(2,732)	1,394	More than three years	4,933	(3,715)	1,218
18,664	**(7,467)**	**11,197**		**21,184**	**(9,804)**	**11,380**

31st March 2019 Gross Arrears	Provision for bad debts	Net debtor	Business Rates	31st March 2020 Gross Arrears	Provision for bad debts	Net debtor
£000	£000	£000		£000	£000	£000
2,544	(929)	1,615	Less than one year	414	(122)	292
1,811	(761)	1,050	Between one year and three years	312	(171)	141
891	(592)	299	More than three years	123	(103)	20
5,246	**(2,282)**	**2,964**		**849**	**(396)**	**453**

In 2018/19, during the 100% pilot year for business rates, the Council's share increased to 59% from 9% in 2017/18. For 2019/20 the Council's share of the business rate debt has reverted back to 9% and explains the reduction.

20. Provisions

Provisions are set up to meet known liabilities where the exact amount is not known when the accounts are prepared. They represent amounts already charged in the respective year in which the chargeable event took place.

Short Term Liabilities

Provisions estimated to be utilised within one year	**31st March 2018**	Amounts released	Amounts utilised	Provided in year	**31st March 2019**	Amounts released	Amounts utilised	Provided in year	**31st March 2020**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance Fund	(4,508)	1,107	3,097	(2,654)	**(2,958)**	0	2,345	(3,050)	**(3,663)**
Landfill aftercare	(251)	0	298	(292)	**(245)**	0	317	(310)	**(238)**
Out of date cheques	(105)	32	3	(16)	**(86)**	18	6	(23)	**(85)**
Corporate Restructure	(210)	3	198	0	**(9)**	0	9	0	**0**
Social Care & Community	0	0	0	(54)	**(54)**	0	49	(428)	**(433)**
Business Rates Retention Scheme Appeals	(1,465)	0	0	(10,384)	**(11,849)**	9,850	0	0	**(1,999)**
Green Waste	(100)	0	0	0	**(100)**	0	0	0	**(100)**
Total	**(6,639)**	**1,142**	**3,596**	**(13,400)**	**(15,301)**	**9,868**	**2,726**	**(3,811)**	**(6,518)**

Insurance provision

The Council’s Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The above amount shown above represents payments estimated to be made within twelve months.

Landfill aftercare

The Council is responsible for ensuring that landfill sites do not pose a risk to the environment. During the final, aftercare phase, regular monitoring for leachate and gas emissions must be carried out and appropriate remedial action taken where necessary. The above amount shown above represents payments estimated to be made within twelve months.

Out of Date Cheques

Cheques unpresented after six months are provided for while enquiries proceed and resolution reached. Periodic reviews are carried out where items remain unresolved after more than on year although none is considered as a long term item.

Social Care & Community

A claim for a backdated payment for care provided in a residential home setting where a provision is considered appropriate.

Business Rates Retention Scheme Appeals

Businesses can make appeals on the rateable value of their properties. Each of the eight Devon districts assesses a provision for these appeals and they are aggregated for this note. The Authority's share of business rates reverted back from 59% in 2018/19 to 9% in 2019/20, which explains the reduction in the provision in 2019/20.

Green Waste

A claim from the authority's green waste contractor is provided for on the basis of a change in regulatory requirements.

Long Term Liabilities

Provisions estimated to be utilised after more than one year	**31st March 2018 £000**	Amounts released **£000**	Provided in year **£000**	**31st March 2019 £000**	Amounts released **£000**	Amounts utilised **£000**	Provided in year **£000**	**31st March 2020 £000**
Insurance Fund	(9,914)	0	(1,107)	**(11,021)**	0	0	0	(11,021)
Landfill aftercare	(5,393)	291	0	**(5,102)**	310	0	0	(4,792)
Total	**(15,307)**	**291**	**(1,107)**	**(16,123)**	**310**	**0**	**0**	**(15,813)**

For insurance and landfill, that element falling due within one year is included as a provision in short term current liabilities while the remainder is included in long term liabilities.

Insurance provision

The Council’s Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The value of the provision has not been discounted because the significant majority of payments are expected to be made in the next 5 years. The provision is reviewed annually and is assessed on a triennial basis. The balance at 31 March 2020 is considered sufficient to meet claims registered on that date. An estimate of the payment profile has been applied to the Authority's insurance provision at 31 March 2020:

Payable within	**£000**
1 to 2 years	3,859
3 to 5 years	5,997
6 to 9 years	1,165
Total	**11,021**

Landfill aftercare

The Council is responsible for ensuring that landfill sites do not pose a risk to the environment. During the final, aftercare phase, regular monitoring for leachate and gas emissions must be carried out and appropriate remedial action taken where necessary. A programme of estimated expenditure extending over forty years has been provided for in these accounts and the estimate of timing of payments is shown below.

Payable within	£000
1 to 2 years	230
3 to 5 years	852
6 to 10 years	928
more than 10 years	2,782
Total	**4,792**

21. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31st March 2019 £000		31st March 2020 £000
(13,965)	Bank Current Accounts	(21,722)
46,830	Investments less than 90 days	80,510
32,865		**58,788**

22. Assets Held for Sale

The movement on Assets Held for Sale balances during the year is as follows:

2018/19 £000		2019/20 £000
11,240	**Balance at 1st April**	6,806
	Assets newly classified as held for sale:	
508	Property, Plant and Equipment	18,866
0	Revaluation losses	(260)
	Assets declassified as held for sale:	
0	property, plant and equipment	(1,350)
(4,942)	Assets sold	(2,121)
6,806	**Balance at 31st March**	**21,941**

23. Unusable Reserves

31st March 2019		31st March 2020
£000		**£000**
(221,701)	Revaluation Reserve	(252,494)
(488,849)	Capital Adjustment Account	(521,619)
16,389	Financial Instruments Adj Account	15,662
1,022,486	Pensions Reserve	1,025,712
(11,246)	Collection Fund Adjustment Account	(8,012)
6,729	Accumulated Absences Account	7,059
(16)	Financial Instruments Revaluation Reserve	336
(3,221)	Deferred Capital Receipts Reserve	(471)
320,571		**266,173**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

£000		£000
(187,426)	**Balance at 1st April**	**(221,701)**
(63,203)	Upward revaluation of assets	(57,090)
1,709	Downward Revaluation of assets not charged to the Surplus/Deficit on the provision of services	3,971
(248,920)	Surplus or deficit on revaluation of non-curent assets not posted to the Surplus or Deficit on the Provision of Services	(274,820)
10,706	Difference between fair value depreciation and historical cost depreciation	13,799
16,513	Accumulated gains on assets sold or scrapped	8,527
27,219	Amount written off to the Capital Adjustment Account	22,326
(221,701)	**Balance at 31st March**	**(252,494)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisitions, construction or enhancement of those assets under statutory provision. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

(469,642)	**Balance 1st April**	**(488,849)**
66,241	Charges for depreciation and impairment of non-current assets	73,730
2,761	Revaluation (gain)/loss on Property Plant and Equipment	(2,394)
493	Amortisation	800
(1,844)	Release of deferred income from Energy from Waste	(1,844)
16,733	Revenue expenditure funded from capital under statute	14,674
59,424	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	32,693
143,808		117,659
(27,219)	Adjusting amounts written out of the Revaluation Reserve	(22,326)
116,589	Net written out amount of the cost of non-current assets consumed in the year	95,333
7	Amounts of Long Term Debtors derecognised, repaid in prior	0
0	Recognition of loan to Academy schools on transfer	(1)
7		(1)
	Capital financing applied in the year:	
(11,933)	Use of the Capital Receipts Reserve to finance new capital expenditure	(6,720)
(107,841)	Application of grants to capital financing from the Capital Grants Unapplied Account	(106,143)
(14,853)	Statutory provision for the financing of capital investment charged against the General Fund	(14,432)
(1,176)	Capital expenditure charged against the General Fund	(807)
(135,803)		(128,102)
(488,849)	**Balance 31st March**	**(521,619)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

2018/19 £000		2019/20 £000
14,110	**Balance 1st April**	**16,389**
(594)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(648)
2,873	Adjusting for effective interest rates	(79)
2,279	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	(727)
16,389	**Balance 31st March**	**15,662**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for past employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by the employees accruing years of services, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned are financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the resources the Authority has set aside to meet future pension benefits, earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £000		2019/20 £000
1,072,180	**Balance 1st April**	**1,022,486**
(91,308)	Actuarial gains or (losses) on pensions assets and liabilities	(51,338)
85,821	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	100,063
(44,207)	Employer's Pensions contributions and direct payments to pensioners payable in the year	(45,499)
1,022,486	**Balance 31st March**	**1,025,712**

24. Other Long Term Liabilities

31st March 2019 £000		31st March 2020 £000
(1,049,537)	Pensions Liability	(1,050,447)
(51,926)	Private Finance Initiative Liability - schools	(47,996)
(42,677)	Liability Exeter Energy from Waste	(42,107)
(24,815)	Private Finance Initiative Liability - Plymouth Energy from Waste	(24,544)
(2,587)	Deferred income - Exeter Energy from Waste	(2,482)
(34,764)	Deferred income - Plymouth Energy from Waste	(33,026)
(1,831)	Financial Guarantee	(1,831)
(1,208,137)		**(1,202,433)**

25. Cash Flow – Operating Activities

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2018/19 £000		2019/20 £000
(66,241)	Depreciation	(73,730)
(2,761)	Revaluation gains/(losses)	2,394
(493)	Amortisation	(800)
1,844	Release of deferred income	1,844
13,364	(Increase)/Decrease in creditors	12,678
5,674	Increase/(Decrease) in debtors	17,105
263	Increase/(Decrease) in inventories	390
(41,614)	Movement in pension liability	(54,564)
(9,476)	(Increase)/Decrease in provisions	9,092
(59,424)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(32,693)
112	Other non-cash items charged to the net surplus or deficit on the provision of services	82
(158,752)		**(118,202)**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2018/19 £000		2019/20 £000
10,824	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,016
0	Any other items for which the cash effects are investing or financing cash flows	88,983
10,824		**94,999**

26. Cash Flow - Investing Activities

2018/19 £000		2019/20 £000
104,220	Purchase of property, plant and equipment, investment property and intangible assets	100,861
0	Purchase of long term investments	10,000
145,000	Purchase of short-term and long-term investments	140,180
(8,074)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,777)
(87,500)	Proceeds from short-term and long-term investments	(195,000)
0	Other receipts from investing activities	(100,748)
153,646	**Net cash flows from investing activities**	**(50,484)**

27. Cash Flow - Financing Activities

2018/19 £000		2019/20 £000
537	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance-sheet PFI contracts	4,020
(4,715)	Other payments for financing activities	(13,085)
(4,178)	**Net cash flows from financing activities**	**(9,065)**

28. Cash Flow - Reconciliation of liabilities arising from financing activities

			Non-cash changes		
	1st April 2019	Financing cash flows	Acquisitions	Other non-cash changes	31 March 2020
	£000	£000	£000	£000	£000
Long-term borrowings	(511,172)	0	0	80	(511,092)
Short-term borrowings	(11,194)	10,904	0	0	(290)
On balance sheet PFI liabilities - Short Term	(4,020)	4,020	0	(4,770)	(4,770)
On balance sheet PFI liabilities - Long Term	(119,418)	0	0	4,770	(114,648)
Total liabilities from financing activities	**(645,804)**	**14,924**	**0**	**80**	**(630,800)**

29. Members’ Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2019/20 £1.125 millions was paid (£1.093 millions in 2018/19).

30. Audit Fees

In 2019/20 the County Council incurred the following fees relating to the external audit:

2018/19 £000		2019/20 £000
93	Fees as appointed auditor	87
4	Other services	4
97		**91**

31. Officers' Remuneration

31.1 Senior Officers Remuneration

The County Council is required to:

Name all officers that earn over £150,000 per annum for all or part of a year.

List all post holders who earn between £50,000 and £150,000 for all or part of a year and who also fit the following criteria:

- They report directly to the Chief Executive, or;
- They are part of the Council's Senior Management Team, or;
- They hold posts required by statute (the Chief Finance Officer and the Monitoring Officer)
- The remuneration paid to the Authority's senior employees is as follows:

	Note		Salary, Fees and Allowances	Expenses Allowances	Pension contributions	**Total**
			£	£	£	**£**
Phil Norrey, Chief Executive		2019/20	156,055		23,564	**179,619**
		2018/19	152,995		23,102	**176,097**
Chief Officer for Adult Care and Health		2019/20	137,582		20,775	**158,357**
		2018/19	135,260		20,424	**155,684**
County Solicitor	1	2019/20	112,445		16,827	**129,272**
		2018/19	109,252		16,497	**125,749**
County Treasurer		2019/20	111,437		16,827	**128,264**
		2018/19	109,252		16,497	**125,749**
Chief Officer for Communities, Public Health, Environment and Prosperity	2	2019/20	175,590	353	36,172	**212,115**
		2018/19	165,472	192	23,795	**189,459**
Chief Officer for Highways, Infrastructure Development and Waste		2019/20	102,841		15,529	**118,370**
		2018/19	100,825		15,225	**116,050**
Head of Digital Transformation and Business Support	3	2019/20	107,263		16,197	**123,460**
		2018/19	90,212		13,622	**103,834**
Chief Officer for Childrens Services		2019/20	137,965		20,833	**158,798**
		2018/19	135,260	3,071	20,888	**159,219**

1. The remuneration of the County Solicitor includes a payment for election duties.

2. From 1 April 2019 NHS employer pension contributions increased from 14.3% to 20.6%, an increase of 6.3%. This affects the pension contributions of the Chief Officer for Communities, Public Health, Environment and Prosperity, who is a member of the NHS Pension Scheme.

3. The 2019/20 salary of the Head of Digital Transformation and Business Support includes back pay from 2018/19.

31.2 Officers Remuneration

The Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) is set out in the following table. This table does not include those Officers disclosed in note 31.1

2018/19				Emoluments	2019/20			
Schools Staff	Other Staff	**Total**	**Left in Year**	**£**	Schools Staff	Other Staff	**Total**	**Left in Year**
58	44	**102**	**3**	**50,000 - 54,999**	86	26	**112**	**2**
53	15	**68**	**2**	**55,000 - 59,999**	44	46	**90**	**1**
42	18	**60**	**2**	**60,000 - 64,999**	41	16	**57**	
23	12	**35**		**65,000 - 69,999**	23	19	**42**	**3**
8	4	**12**		**70,000 - 74,999**	14	9	**23**	
4	6	**10**		**75,000 - 79,999**	6	3	**9**	
4		**4**		**80,000 - 84,999**	3	6	**9**	**1**
4	2	**6**		**85,000 - 89,999**	3	2	**5**	**1**
2		**2**		**90,000 - 94,999**	2	2	**4**	
	1	**1**	**1**	**95,000 - 99,999**	4		**4**	
1	6	**7**		**100,000 - 104,999**		5	**5**	
				105,000 - 109,999	1		**1**	
1		**1**		**110,000 - 114,999**	2		**2**	**1**
				115,000 - 119,999				
1	1	**2**	**1**	**120,000 - 124,999**		1	**1**	
	1	**1**		**125,000 - 129,999**		1	**1**	
201	**110**	**311**	**9**	**Total number above £50,000**	**229**	**136**	**365**	**9**

31.3 Exit Packages

The following table shows the number and value of exit packages included within the Comprehensive Income & Expenditure Statement.

In 2019/20 77 of the 92 exit packages related to schools and colleges and accounted for £806,000 of the total cost of £983,000. In 2018/19 151 of the 173 exit packages related to schools and colleges and accounted for £1.646 millions of the total cost of £2.025 millions.

Bands for exit packages	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
	2018/19	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**
	No.	**No.**	**No.**	**No.**	**No.**	**No.**	**£000**	**£000**
£0 - £20,000	72	33	68	45	140	78	957	510
£20,001 - £40,000	12	3	16	8	28	11	790	322
£40,001 - £60,000	1	1	2	1	3	2	131	88
£60,001 - £80,000	1		1	1	2	1	147	63
	86	**37**	**87**	**55**	**173**	**92**	**2,025**	**983**

32. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

Credited to Taxation and Non Specific Grant Income

2018/19 £000		2019/20 £000
	UK Government Revenue Grants:	
(20,395)	Improved Better Care Fund	(24,695)
0	Covid-19 LA Support Grant	(22,516)
0	Rural Service Delivery Grant	(7,455)
(21,253)	Business Rates Reliefs and Multiplier Cap	(7,019)
(2,235)	Adult Social Care Support Grant	(6,108)
(3,329)	Private Finance Initiative - Interest	(4,288)
(3,809)	New Homes Bonus	(3,659)
(3,576)	Adult Social Care Winter Pressures	(3,576)
(2,705)	Independent Living Fund	(2,622)
(740)	School Improvement Grant	(715)
0	Revenue Support Grant	(537)
(721)	Local Service Support Grant	(533)
(1,550)	BRRS Levy Account Surplus Grant	(344)
(88)	Brexit Contingency Planning Grant	(175)
(89)	Lead Local Authority Flood Relief	(95)
(245)	Unaccompanied asylum seeking children	0
(94)	Other Government Grants below £50,000	(48)
(60,829)	**Non ringfenced Government Grants**	**(84,385)**
	Capital Grants:	
(66,950)	Department for Transport - Local Transport Plan	(44,733)
(1,633)	Department for Tranpsort - Slapton	(1,839)
(1,102)	Department for Tranpsort - North Devon Link Road	(1,127)
(9,325)	Schools Basic Needs - DfE grant	(8,003)
(6,734)	Better Care Fund	(7,267)
(2,408)	National Productivity Investment Fund (NPIF)	(5,573)
(5,316)	Schools Capital Maintenance - DfE grant	(4,665)
(1,599)	Growth Deal One Grant - MHCLG / HotSW LEP grant	(3,295)
(1,553)	Devolved Formula Capital - DfE grant	(1,940)
(16,460)	Other	(12,421)
(113,080)	**Capital Grants and Contributions**	**(90,863)**
(173,909)		**(175,248)**

Grant Income - Credited to Services

2018/19 £000		2019/20 £000
(865)	Active Devon	(865)
(3,422)	Adult and Community Learning	(3,349)
(339)	Areas of outstanding Natural Beauty	(356)
(760)	Asylum Seekers (HO)	(1,098)
(1,146)	Bus Services Operators Grant	(1,146)
(281,286)	Dedicated Schools Grant	(268,587)
(241)	Environment Projects	(115)
(503)	Local Reform Community Voices	(512)
(500)	Local Sustainable Transport Fund	(500)
(942)	Music Education Grant	(913)
(246)	Nat Coll of Teaching & Leadership (DfE)	(59)
(261)	Other Economy Government Grants	(364)
(3,448)	PE and Sports Grant (DfE)	(3,187)
(755)	Post-Adoption Support Fund (DfE)	(170)
(3,608)	Private Finance Initiative	(2,649)
(320)	Provision of Social Care in Prisons	(313)
(27,512)	Public Health	(26,786)
(13,427)	Pupil Premium	(11,751)
0	Secure Stairs (NHS England)	(502)
(788)	Syrian Refugees (home office)	(688)
(993)	Teachers Pay Grant	(2,086)
0	Teacher Pensions Grant	(4,132)
(2,341)	Troubled Families Programme	(2,277)
(5,609)	Universal Infant Free School Meals (DfE)	(5,383)
(445)	War Pensions Scheme Grant (DoH)	(455)
(3,252)	YPLA Post 16 Funding	(1,759)
(2,035)	Government Grants below £200,000	(1,678)
(355,044)	**Total UK Government Grants**	**(341,680)**
(581)	**Total EU Grants**	**(775)**
(1,898)	Exeter Diocesan Board PFI contribution	(1,918)
(1,048)	Contributions from other local authorities	(3,426)
(17,595)	Better Care Fund	(17,470)
(4,956)	Other contributions to services	(3,724)
(25,497)	**Total Contributions from Other Sources**	**(26,538)**
(381,122)	**Total Grant Income Credited to Services**	**(368,993)**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income within the Comprehensive Income and Expenditure Statement as they have conditions attached to them that may require the monies to be returned to the giver if the conditions are not met. In March 2020, the Government made early payments to the

Authority for 2020/21 business rate relief and multiplier cap compensation of £7.9 millions, which explains the increase in revenue grants in advance. The balances at the year end are:

2018/19 £000		2019/20 £000
	Revenue Grants (Included within Revenue Grants Receipts in Advance - Long Term Liabilities):	
(6,119)	S106 Developer Contributions	**(6,482)**
	Revenue Grants (Included within Revenue Grants Receipts in Advance - Current Liabilities)	
(951)		**(8,838)**
	Capital Grants (Included within Capital Grants Receipts in Advance - Long Term Liabilities):	
(23,660)	S106 Developer Contributions	(33,685)
(300)	Special Provision Fund (SEN)	(1,977)
(2,758)	Department for Transport	(1,738)
(1,440)	National Productivity Investment Fund	(1,524)
(2,524)	Schools Devolved Formula Capital	(1,404)
(218)	Growth Deal One Grant (MHCLG / HotSW LEP)	(218)
(741)	Other	(2,520)
(31,641)		**(43,066)**

32.1 Details of the deployment of DSG receivable

The Authority's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2019/20 are as follows:

2018/19 Central Expenditure £000	2018/19 ISB £000	2018/19 Total £000		2019/20 Central Expenditure £000	2019/20 ISB £000	2019/20 Total £000
		504,411	Final DSG before Academy recoupment			511,684
		(223,266)	Academy figure recouped			(243,167)
		281,145	Total DSG after Academy recoupment			268,517
		1,136	Brought forward from previous year			341
91,442	190,839	282,281	Agreed initial budgeted distribution	90,913	177,945	268,858
(36,741)	36,882	141	In year adjustments	(40,521)	40,591	70
54,701	227,721	282,422	Final budgeted distribution	50,392	218,536	268,928
(57,150)		(57,150)	Less Actual central expenditure	(66,537)		(66,537)
	(227,721)	(227,721)	Less Actual ISB deployed to schools		(218,536)	(218,536)
2,790		2,790	Plus Local authority contribution			0
341	**0**	**341**	**Carry forward agreed in advance**	**(16,145)**	**0**	**(16,145)**

33. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

Summary of Capital Expenditure and Sources of Finance

2018/19 £000		2019/20 £000
729,326	**Opening Capital Financing Requirement**	714,217
729,326		714,217
	Capital Investment	
102,150	Property, Plant and Equipment	98,985
18	Heritage Assets	0
1,654	Intangible Assets	1,470
16,733	Revenue Expenditure Funded from Capital under Statute	14,674
	Sources of Finance	
(11,933)	Capital Receipts	(6,720)
(107,841)	Government Grants and other contributions	(106,143)
	Sums set aside from revenue:	
(1,176)	Direct revenue contributions	(807)
(113)	External contribution - debt repayments	(97)
(14,853)	Statutory provision for the financing of capital investment	(14,432)
	Capital provision	
5,499	Creation of Long Term Provision	5,247
(5,247)	Provision remaining at year end	(5,003)
714,217	**Closing Capital Financing Requirement**	**701,391**
	Explanation of Movements in Year	
4,213	Increase in underlying need to Borrow (unsupported by government financial assistance)	3,338
252	Decrease in Capital Provision	244
(2,161)	(Reduction)/ Increase in PFI liability	(2,048)
(17,413)	Increase in the provision for repayment of debt	(14,359)
(15,109)	**Increase/(decrease) in Capital Financing Requirement**	**(12,825)**

34. Partnerships and Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in Note 32.

Members of the Council have direct control over the Council's financial and operating policies. The Council's constitution requires members to declare their interests in related parties in a register of interests. In addition, members are asked to declare separately any transactions with the Authority. Transactions which require disclosure are in respect of the following.

In 2019/20 the Council lent £1.1 millions to the Exeter Royal Academy for Deaf Education of which £800,000 was repaid on 29th May 2020 and the remaining £300,000 was repaid on 30th September 2020. A member of the Council is also a trustee of the Academy.

A member's partner is a foster carer and has received payments of £61,000 in 2019/20 (2018/19 £47,000).

A member belongs to the Newtown Community Association which received £3,000 from the member's locality budget and £2,000 capital grant from the Authority towards its community building in 2019/20 (2018/19 £1,000 and £21,000 respectively).

These transactions were entered into in full compliance with the County Council's Financial Regulations and Code of Business Conduct.

Officers are bound by the Council's Code of Business Conduct which seeks to prevent related parties exerting undue influence over the Authority. Directors are required to declare any transactions with the Authority. In 2019/20 there are no transactions that require disclosure.

34.1 Local Levies

The following levies were paid during the year:

2018/19 £000		**2019/20 £000**
551	Environment Agency	604
345	DSIFCA	341

All levies were due and paid during the year.

The Council's County Treasurer acts as the Chief Finance Officer for the Devon and Severn Inshore Fisheries and Conservation Authority (DSIFCA). The DSIFCA owed the Authority £48,000 at 31 March 2020 (£83,000 at 31 March 2019). The Council received payments of £17,000 (2018/19 £14,600).

34.2 Other public sector bodies

Devon County Council received income from the NHS Commissioning Board and NHS Devon CCG, of £92.109 millions in 2019/20 (2018/19 £88.985 millions from North, East and West Devon CCG and South Devon and Torbay CCG) of which £19.627 millions (2018/19 £21.770 millions) is included in the Comprehensive Income and Expenditure Account. The income is primarily for funded nursing care payments, which are administered by the County Council on

behalf of the combined organisations and therefore not included within the Comprehensive Income and Expenditure Statement, and other healthcare partnership agreements. The Authority made payments of £3.832 millions (2018/19 £22.946 millions) during the year to the CCG. The payments to the CCG have reduced because of bringing services such as health visitors in house. At the year end the Authority was due £8.615 millions (2018/19 £5.545 millions) from the organisations combined and owed it £3.311 millions (2018/19 £1.991 millions).
The Council provides legal services and the Monitoring Officer function for Exmoor National Park Authority. A county council member of the Cabinet is also the Deputy Chairman of Exmoor National Park Authority.
The Council received payments from these bodies for finance and legal services provided as follows:

2018/19		**2019/20**
£000		**£000**
94	Dartmoor National Park	88
73	Exmoor National Park	62

The Council gave grants to Dartmoor National Park Authority of £47,000 (2018/19 £48,000) principally for the maintenance of footpaths, bridleways and footbridges and received grants of £5,000 (2018/19 £5,000) mainly for the support of public rights of way.

The Council also made payments to Exmoor of £23,000 (2018/19 £20,000) mainly for public rights of way.

34.3 Transaction with the Pension Fund

The Council charged the Fund £3.027 millions (2018/19 £2.841 millions) for expenses incurred in administering the fund, of which £2.819 millions was due to the Council at 31 March 2020 (31 March 2019 £2.638 millions).
Devon County Council is one of ten administering authorities which each owns 10% of Brunel Pension Partnership Limited (Company Number 10429110). The investments in this company are made from the Devon Pension Fund. The County Council has not transacted with Brunel.

34.4 Assisted Organisations

The Council has provided significant contributions to the following bodies:

- District Councils in Devon have received a total of £143,000 (2018/19 £151,000) conditional on long term agreements for the daytime use of pools and dual use sports halls by schools, without charge.
- Citizens Advice Bureaux in Devon have received £617,000 (2018/19 £573,000) and the Council for Voluntary Services £42,000 (2018/19 - £29,000) from the Council conditional on long term agreements for the provision of services.
- The Community Council of Devon has received grants of £99,000 (2018/19 £90,000) and Healthwatch £371,000 (2018/19 - £391,000), conditional on long term agreements for the provision of services.
- Local Council Tax Schemes have received assistance valued at £71,000 (2018/19 £45,000).
- Devon Disability Collective – is a Social Enterprise that provides quality employment and training to people with disabilities and those furthest from the labour market. In 2019/20 Devon Disability Collective received £9,000 from the County Council (2017/18 £3,000)

Devon County Council has the following transactions with these organisations:

		2018/19	2019/20
The South West Heritage Trust – an independent charitable trust - took over management of Devon Heritage Services on 1 November, 2014. Though the Heritage Trust operates as an independent organisation, it receives support from Somerset and Devon County Councils for five years.		**£000**	**£000**
	Receipts	(1)	(1)
	Payments	470	413
	Debtors	0	0
	Creditors	0	0

		2018/19	2019/20
Libraries Unlimited – an independent charitable trust - took over management of Devon Library Services on 1 April 2016. Though Libraries Unlimited operates as an independent organisation, it has a contract with Devon County Council who also provides a pensions guarantee. The payments in 2017/18 include an early payment for the first Quarter of 2018/19. Consequently, there were only three quarters paid in 2018/19.		**£000**	**£000**
	Receipts	(510)	(506)
	Payments	5,455	7,324
	Debtors	119	46
	Creditors	(24)	(217)

		2018/19	2019/20
DYS Space Ltd – was established from 1 February 2017 to manage youth services in Devon. The existing staff team from Devon Youth Services set up a Public Sector Mutual organisation, and secured a 3-year contract from Devon County Council. The payments in 2018/19 include the first Quarter payment of 2019/20.		**£000**	**£000**
	Receipts	(67)	(69)
	Payments	2,365	1,938
	Debtors	7	12
	Creditors	(6)	(48)

34.5 Partnerships

There are a number of partnerships in which the County Council participates. The most significant of these is the Better Care Fund, which began in 2015/16. Devon County Council has joined with its NHS partner, NHS Devon Clinical Commissioning Group (CCG) in the provision of services to support reduced hospital admissions and length of stay. NHS Devon CCG was formed on 1st April 2019 from the merger of the two previous CCGs - North, East West (NEW) Devon and South Devon and Torbay. Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006.

The aims and benefits of the Partners in entering into this Agreement are to:

- improve the quality and efficiency of the Services;
- meet the National Conditions and Local Objectives;
- make more effective use of resources through the establishment and maintenance of a pooled fund for expenditure on the Services;
- ensure that people in Devon will be independent, resilient and self-caring so fewer people reach crisis point; and
- for those that need it, to develop an integrated health and care system that enables people to proactively manage their own care with the support of their family, community and the right professionals at the right time in a properly joined up system.

In a crisis, people in Devon will know exactly what to do, who to contact, receive a rapid response and have their needs met in a completely organised, systematic and careful way.

The following table shows the contributions of Devon County Council and its NHS partner and the key areas of expenditure.

Better Care Fund 2019/20	NHS Devon CCG 2019/20	Devon County Council Revenue 2019/20	Devon County Council Capital 2019/20	TOTAL 2019/20
Income	£000	£000	£000	£000
Contributions	(55,233)	(32,424)	(7,267)	(94,924)
add prior year carry forwards	0	(6,968)	(82)	(7,050)
less carry forwards / refunds due		1,740		1,740
Income	**(55,233)**	**(37,652)**	**(7,349)**	**(100,234)**
Expenditure	£000	£000	£000	£000
Disabled Facilities Grants			7,349	7,349
Improved Better Care Fund Grant		33,522		33,522
Enabling Schemes	2,580	281		2,861
Enhanced Carers Offer/ Care Implementation Act	2,774	1,639		4,413
Enhanced Community Equipment Service	5,037	2,143		7,180
Frailty and Community Care Services, Support to Social Services	35,816	(231)		35,585
Rapid Response Services	3,008	295		3,303
Step Up Step Down Care Services	3,588	(64)		3,524
Hospital discharge services	967	99		1,066
Other	1,463	(32)		1,431
Total Expenditure	**55,233**	**37,652**	**7,349**	**100,234**

Better Care Fund 2018/19	South Devon & Torbay CCG 2018/19	NEW Devon CCG 2018/19	Devon County Council Revenue 2018/19	Devon County Council Capital 2018/19	TOTAL 2018/19
Income	£000	£000	£000	£000	£000
Contributions	(10,492)	(42,147)	(24,918)	(6,735)	(84,292)
add prior year carry forwards			(8,789)	(73)	(8,862)
less carry forwards / refunds due	0	0	6,968	82	7,050
Income	**(10,492)**	**(42,147)**	**(26,739)**	**(6,726)**	**(86,104)**
Expenditure	£000	£000	£000	£000	£000
Disabled Facilities Grants				6,726	6,726
Improved Better Care Fund Grant			20,962		20,962
Enabling Schemes	324	2,183	(16)		2,491
Enhanced Carers Offer/ Care Implementation Act	600	2,399	1,057		4,056
Enhanced Community Equipment Service	952	3,808	2,595		7,355
Frailty and Community Care Services, Support to Social Services	6,823	26,272	1,908		35,003
Rapid Response Services	408	2,600	295		3,303
Step Up Step Down Care Services	778	2,810	(55)		3,533
Other	607	2,075	(7)		2,675
Total Expenditure	**10,492**	**42,147**	**26,739**	**6,726**	**86,104**

The value of community equipment held as stock amounts to £1.310 millions of which the County Council's share included in the balance sheet is £655,000.

Reference - see below		2018/19 Contribution - other partners £000	2018/19 Council's Contribution £000	2018/19 Total Expenditure £000	2019/20 Contribution - other partners £000	2019/20 Council's Contribution £000	2019/20 Total Expenditure £000
	Health - Section 75 partnerships						
a	Integrated Health and Social Care	(819)	(977)	1,796	(898)	(1,190)	2,088
b	Mental Health Services - Devon Partnership NHS Trust	0	(1,404)	1,404	0	(1,379)	1,379
c	NHS Devon CCG - Children's Services	0	0	0	(10,241)	(3,350)	13,591
	Other partnerships						
d	Devon Audit Partnership	(1,039)	(334)	1,373	(1,365)	(347)	1,712
e	South West Devon Waste Partnership	(2,555)	(2,566)	5,121	(2,560)	(2,654)	5,214
f	Youth Offending Team	(926)	(299)	1,225	(995)	(299)	1,294
g	Devon Children and Families Partnership (DCFP)	(160)	(272)	432	(230)	(132)	362
h	Adopt South West	(1,452)	(854)	2,306	(2,976)	(1,751)	4,727

a) The integrated health and social care management structure is a joint arrangement under the terms of section 75 of the Health Act 2006, but is not a pooled budget. Staff are employed either by Devon County Council, NHS Devon CCG, NHS Torbay & South Devon Foundation Trust, North Devon Healthcare Trust, the RD&E NHS Foundation Trust, and Livewell CIC. Agreed proportions of the cost of these staff are shared with other partners to the arrangements.

b) Devon Partnership NHS Trust manages the provision of services for people with mental health needs on behalf of the County Council and NHS Devon Clinical Commissioning Group.

c) The Children's S75 Partnership agreement with NHS Devon CCG relates to the commissioning of Community Health and Care services for children in Devon. This is a pooled arrangement with the CCG which commenced 1st April 2019 and just over £9 millions of total partnership expenditure is spent directly by the CCG on Occupational Therapy and Child and Adolescent Mental Health Services (CAMHS).

d) Devon Audit Partnership is a Joint Committee formed by Devon County Council, Plymouth City Council and Torbay Council. The partnership provides an Internal Audit service to the three Councils and other local government clients across Devon.

e) The South West Devon Waste Partnership is an equal partnership between Devon County Council, Plymouth City Council and Torbay Council which has established arrangements to convert waste into energy.

f) The Youth Offending Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police & Crime Commissioner, NHS Devon CCG, NHS Torbay & South Devon Foundation Trust, and the National Probation Service, as well as a combination of government grants. The initiative provides programmes to reduce youth re offending and youth crime prevention programmes to reduce first time offending.

g) The Devon Children and Families Partnership constitute Devon's local arrangements for the safeguarding and promoting the welfare of children. The overall aim of the partnership is to improve outcomes for children and their families by co-ordinating and scrutinising the effectiveness of services being delivered to children and young people across Devon. This partnership is funded by contributions from the County Council, Devon & Cornwall Police & Crime Commissioner, National Probation Service, NHS Devon CCG, NHS Torbay & South Devon Foundation Trust, NHS Acute Healthcare Trusts, Devon Partnership Trust and Careers South West Ltd.

h) Adopt South West (a Regional Adoption Agency) commenced 1st October 2018. It is a Local Authority partnership between Devon County Council (the Host Authority), Somerset County Council, Plymouth City Council and Torbay Council, tasked with performing adoption service functions for the region. By joining together the skills, resources and best working practice of each organisation Adopt South West aims to improve outcomes for children and families, deliver a value for money service and deliver it consistently.

34.6 Associated Companies and Joint Ventures

Devon County Council has the following transactions with these organisations:

		2018/19	2019/20
Skypark Development Partnership LLP The Council has a 50% interest in this limited liability partnership to develop a business park which will offer high quality employment opportunities. St. Modwen Developments Ltd holds the other 50% interest.		**£000**	**£000**
	Receipts	0	0
	Payments	54	0
	Debtor Loans	1,401	1,401
	Creditors	0	0

		2018/19	2019/20
Exeter Science Park. The Council holds a 46.02% interest in this company which was set up on 24th February 2009. The Science Park Company operates under 'de minimis' State Aid regulations with the intention of promoting Exeter Science Park. The other partners are East Devon District Council, Exeter City Council and the University of Exeter.		**£000**	**£000**
	Receipts	(561)	(906)
	Payments	0	554
	Debtors	0	0
	Creditors	0	0

		2018/19	2019/20
CSW Ltd (formerly **Careers South West)** - a local authority controlled company which manages Devon Education Business Partnership. The members of the Company, are Devon County Council, Cornwall Council, Torbay Council and Plymouth City Council. Devon County Council has guaranteed 45% of any pension liability in the event that the company is wound up.		**£000**	**£000**
	Receipts	(7)	(5)
	Payments	2,142	1,735
	Debtors	6	0
	Creditors	(12)	0

		2018/19	2019/20
NPS South West - The Council holds 20% equity and appoints two of the six members of the Board. The Council's 50% share of profits is used to discount the payments it makes to the company for property management services provided to it. The ultimate parent is Norse Group Limited which is 100% owned by Norfolk County Council.		**£000**	**£000**
	Receipts	(163)	(70)
	Payments	5,077	4,823
	Debtors	0	125
	Creditors	(603)	(437)

		2018/19	2019/20
Devon Norse. The Council holds equity of 20%. The company was set up on 7th March 2011 to provide cleaning and catering services, and was expanded on 1 April 2014 to include facilities management for all corporate premises. The ultimate parent is Norse Group Limited which is 100% owned by Norfolk County Council.		**£000**	**£000**
	Receipts	(179)	(266)
	Payments	7,507	7,095
	Debtors	263	230
	Creditors	(343)	(254)

Associated Companies and Joint Ventures (continued)

Babcock LDP LLP is a joint venture between Devon County Council and Babcock Training Ltd. Devon CC holds 19.9%. Education and inclusion services previously delivered by the Learning Development Partnership as a Council service have been transferred to Babcock LDP LLP.

	2018/19 £000	2019/20 £000
Receipts	(235)	(281)
Payments	12,715	13,359
Debtors	105	294
Creditors	(208)	(202)

South West Grid for Learning Trust. The County Council is one of 15 member authorities based in the South West. The principal activity of the Company is to provide education information technology support services. A guarantee for pension liabilities is disclosed at Note 38.

	2018/19 £000	2019/20 £000
Receipts	(1)	(1)
Payments	556	451
Debtors	0	0
Creditors	(9)	0

Exeter Skypark - dormant and has never been used.

35. Private Finance Initiative and Similar Contracts

Exeter Schools - PFI Scheme

2019/20 was the fifteenth year of a 28 year PFI contract for the construction, maintenance and operation of 5 secondary and 1 primary schools in the city of Exeter. The contract confers rights to the Governing Bodies of the schools for 195 School Days from 8am to 5.30pm. During these hours and on these days the schools should be fully functional. In addition, staff should be able to gain access to all areas of the school from 7.30am to 6.00 pm.

Additionally, each school is entitled to additional school periods defined within the Project Agreement which were agreed prior to commencement. These vary between individual schools.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the schools and maintain them to a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Authority in a condition complying with the Residual Life Requirements, for nil consideration. The Authority only has rights to terminate the contract if it compensates the contractor in full for the Senior Debt, subordinate debt and any other costs incurred.

Value of Assets held under PFI contracts

2018/19 £000		2019/20 £000
	Property Plant & Equipment	
5,564	Opening Net Book Value	6,215
	Additions	34
(354)	Depreciation	(439)
1,005	Revaluations	613
	Disposals	
6,215	**Closing Net Book Value**	**6,423**

The PFI liability is carried on the Balance Sheet at amortised cost. The fair value is assessed by calculating the present value of the cash flows over the remaining term of the agreement. This has been calculated based on the Public Works Loan Board (PWLB) new borrowing rate in force on 31st March 2019 and 31st March 2020.

The fair value of the liability is higher than the amount that is carried in the balance sheet. This is due to current loan rates being lower than the interest rate implied within the PFI contract.

5 of the 6 Schools have transferred to Academy status since commencement of the contract, therefore the asset value for those Schools have been removed from the balance sheet as required under accounting standards. The liability for the PFI contract remains with the County, however there is no additional financial burden for the County.

Value of Liabilities held under PFI contracts

2018/19 £000		2019/20 £000
(59,100)	Opening Liability	(55,301)
3,799	Repayment of Liability	3,375
(55,301)	**Closing Liability**	**(51,926)**
(84,575)	**Fair Value**	**(75,886)**

Payments due to be made under the PFI Contract for Liabilities held on Balance Sheet include a service element for the school's premises running costs and capital financing payments that relate to the reduction of liability and an amount for interest. Other cash charges include the ongoing costs of maintaining the assets and contingent rents. The figures shown in the table below do not include any adjustments for inflation.

Payments to be made under the PFI Contract for Liabilities held on Balance Sheet

	Repayments of Liability £000	Interest Charges £000	Service Charges £000	Other Cash Charges £000	Total Payments £000
Within 1 year	3,929	4,274	3,165	1,657	**13,025**
Within 2 - 5 years	16,489	13,732	13,589	6,685	**50,495**
Within 6 - 10 years	17,208	10,103	19,303	14,176	**60,790**
Within 11 - 15 years	14,300	3,220	17,527	11,597	**46,644**
	51,926	**31,329**	**53,584**	**34,115**	**170,954**

Payments under the contract commenced in 2005/06. For both the on and off balance sheet schools, the total payment under the contract amounts to £350 millions. Set against this is a grant of £248 millions which will be received from central government. Of the remaining balance, £76 millions will be met from delegated school budgets and £25 millions will be financed by the Authority. In 2019/20 the Authority's contribution was £1.4 millions.

The un-discharged liability to the Authority the contract is £2.6 millions of which the maximum in any year is £1.3 millions. This is based upon an assumed inflation rate of 2.5%. If inflation is 1% greater than this then Authority's undischarged liability will increase by £808,000 to £3.4 millions.

Exeter Energy from Waste

The Authority entered into an agreement in October 2011 with an operator to finance, design, construct and operate an Energy from waste (EFW) plant to treat and render inert waste that would otherwise be disposed of in landfill sites. Construction of the EFW plant was completed in July 2014.

The operator receives payments from the Authority via a 'gate fee' per tonne of waste treated at the EFW plant and fixed at an assumed capacity of 60,000 tonnes of waste per annum. The Authority may make deductions from the EFW gate fee if the operator fails to accept waste for treatment or fails to perform services to the required standards. The entire EFW gate fee is indexed according to changes in the Retail Prices Index.

Accounting Standards for this service concession require the Authority to record the EFW's costs of construction as property, plant and equipment.

Value of Assets held under Service Concession contracts

2018/19 £000		2019/20 £000
	Property Plant & Equipment	
28,263	Opening Net Book Value	30,042
	Initial recognition	
	Additions	
(1,074)	Depreciation	(1,182)
2,853	Revaluations	2,673
	Disposals	
30,042	**Closing Net Book Value**	**31,533**

In addition to recognising the asset, the Authority also recognises the liability for funding. The liability consists of a gate fee element from which the Authority funds 93% from the revenue budget, with 7% assumed to be funded from external third party revenues. The latter is shown in the Authority's accounts as a deferred credit.

Value of Liabilities held under Service Concession contracts

2018/19 £000		2019/20 £000
(43,610)	Opening liability	(43,135)
	Initial recognition of EEFW liability	
475	Repayment of Liability	457
(43,135)	**Closing Liability**	**(42,678)**
(94,540)	**Fair Value**	**(89,306)**

Value of Deferred Credit held under Service Concession contracts

2018/19 £000		2019/20 £000
(2,798)	Opening deferred credit	(2,692)
106	Release of deferred income	106
(2,692)	**Closing Liability**	**(2,586)**

The Service Concession liability is carried on the Balance Sheet at amortised cost. The fair value is assessed by calculating the present value of the cash flows over the remaining term of the agreement. This has been calculated based on the Public Works Loan Board (PWLB) new borrowing rate in force on 31st March 2020.

The fair value of the liability is higher than the amount that is carried in the balance sheet. This is due to current loan rates being lower than the interest rate implied within the contract. Payments due to be made under the Service Concession Contract for Liabilities held on Balance Sheet include a number of different elements within the gate fee. The Repayment of Liability covers the initial cost of developing the plant. The Interest Charge includes an assumed cost of capital and the element of the charge that is dependent on future cost of living increases to capital financing. Lastly, the Service charge covers the cost of servicing and maintaining the plant. The figures shown in the following table assume an annual inflation rate of 1.5%.

Payments to be made under the Service Concession Contract for Liabilities held on Balance Sheet

	Repayments of Liability	Interest Charges	Service Charges	Total Payments
	£000	**£000**	**£000**	**£000**
Within 1 year	570	4,886	3,564	**9,020**
Within 2 - 5 years	2,220	20,287	15,881	**38,388**
Within 6 - 10 years	4,219	27,008	22,410	**53,637**
Within 11 - 15 years	7,272	28,652	24,761	**60,685**
Within 16 - 20 years	12,096	29,065	27,498	**68,659**
Within 21 - 25 years	16,300	23,362	25,908	**65,570**
	42,677	**133,260**	**120,022**	**295,959**

Payments under the contract commenced in 2014/15. Based upon an assumed inflation rate of 1.5% the total payments under the contract will amount to £343 millions. This is the total amount that will be met by the Authority via a 'gate-fee' over the life of the agreement.

The un-discharged liability to the Authority under the contract is just under £296.0 millions of which the maximum in any year is £16 millions although that is not until 2043/44. In 2019/20, the Authority paid £8.8 millions under the contract.

If inflation is greater than 2.5% then the un-discharged liability and maximum payment in any year will increase. If inflation is 1% greater than this then the undischarged liability will increase by £43.3 millions to £339.3 millions.

Plymouth Energy from Waste

The Authority entered into a Waste Partnership with Plymouth City Council & Torbay Council in 2008 - South West Devon Waste Partnership. The outcome of the project is a waste disposal solution for South West Devon. The three Council's jointly signed a 25 year contract for waste disposal with German Company MVV Umwelt in March 2011.

MVV has built an energy from waste facility on leased Ministry of Defence land at Camels Head North Yard in Devonport Dockyard, Plymouth. The Plant was fully operational in September 2015 when the plant received waste from the three authorities in return for contract payments linked to tonnages of waste delivered.

The Authority is taking approximately 60,000 tonnes of waste per year to the facility with the facility designed to process approximately 250,000 tonnes of residual waste per year. It uses this waste to produce approximately 22.5 MegaWatts of electricity and 23.3 MegaWatts of heat, which will be primarily used by the adjacent Naval Dockyard, with the remainder being exported to the national grid.

Accounting Standards for this PFI require the Authority to record the Authority's share of EFW's costs of construction as property, plant and equipment.

Value of Assets held under PFI contract

2018/19 £000		2019/20 £000
	Property Plant & Equipment	
66,498	Initial recognition	69,282
	Additions	
(3,140)	Depreciation	(3,388)
5,924	Revaluations	2,873
	Disposals	
69,282	**Closing Net Book Value**	**68,767**

In addition to recognising the asset, the Authority also recognises the liability for funding. The liability consists of a gate fee element, which the Authority funds partly from the revenue budget, and partly from revenues from third parties (including the sale of heat and electricity). The latter is shown in the Authority's accounts as a deferred credit.

Value of Deferred Credit held under PFI

2018/19 £000		2019/20 £000
(38,241)	Opening deferred credit	(36,503)
1,738	Release of deferred income	1,738
(36,503)	**Closing Liability**	**(34,765)**

The PFI liability is carried on the balance sheet at amortised cost. The fair value is assessed by calculating the present value of the cash flows over the remaining term of the agreement. This has been calculated based on the Public Works Loan Board (PWLB) new borrowing rate in force on 31st March 2020.

Value of Liabilities held under PFI contract

2018/19 £000		2019/20 £000
(25,285)	Initial recognition	(25,002)
283	Repayment of Liability	188
(25,002)	**Closing Liability**	**(24,814)**
(52,312)	**Fair Value**	**(49,490)**

The fair value of the liability is higher than the amount that is carried in the balance sheet. This is due to current loan rates being lower than the interest rate implied within the contract.

Payments due to be made under the PFI Contract for Liabilities held on balance sheet include a number of different elements within the gate fee. The Repayment of Liability covers the initial cost of developing the plant.

The Interest Charge includes an assumed cost of capital and the element of the charge that is dependent on future cost of living increases to capital financing. Lastly, the Service charge covers the cost of servicing and maintaining the plant.

The figures shown in the table below assume an annual inflation rate of 2.5%.

Payments to be made under the Service Concession Contract for Liabilities held on Balance Sheet

	Repayments of Liability £000	Interest Charges £000	Service Charges £000	Total Payments £000
Within 1 year	271	2,396	2,959	**5,626**
Within 2 - 5 years	1,822	8,860	12,473	**23,155**
Within 6 - 10 years	3,430	8,592	18,038	**30,060**
Within 11 - 15 years	7,504	5,101	19,062	**31,667**
Within 16 - 20 years	11,787	(1,361)	21,354	**31,780**
	24,814	**23,588**	**73,886**	**122,288**

Payments under the contract commenced in 2015/16. Based upon an assumed inflation rate of 2.5% the total payments under the contract will amount to £148 millions. This is the total amount that will be met by the Authority via a 'gate-fee' over the life of the agreement.

The un-discharged liability to the Authority under the contract is £122.3 millions of which the maximum in any year is £6.9 millions although that is not until 2038/39. In 2019/20, the Authority paid £5.6 millions under the contract.

If inflation is greater than 2.5% then the un-discharged liability and maximum payment in any year will increase. If inflation is 1% greater than this then the undischarged liability will increase by £15 millions to £137.3 millions.

36. Leases and Contract Hire

Finance leases (Council as Lessor)

Land and buildings: The Council has 135 assets that are leased to tenants that meet the definition of a finance lease. The present value at 31 March 2020 of the rental payments due to the Council is not material. The lease debtor is not included within the balance sheet as the sum is not material. The annual lease income is accounted for within the comprehensive income and expenditure statement as it falls due.

Finance leases (Council as Lessee)

Land and buildings: The Council has 23 assets that are held on finance leases. The Council's interest in the assets is included within non-current assets on the balance sheet. The present value of lease payments to be made over the term is estimated to be £1.624 millions. The lease liability is not included within the balance sheet as the sum is not material. The annual lease payments are accounted for within the comprehensive income and expenditure statement as they fall due.

Operating leases (Council as Lessee)

The future minimum lease payments due under non-cancellable leases in future years are:

2018/19	Property £000	Equipment £000	Contract Hire £000	**Total £000**
Not later than 1 year	1,211	396	64	**1,671**
Later than 1 year but not later than 5 years	3,476	668	5	**4,149**
Later than 5 years	1,902	4		**1,906**
	6,589	**1,068**	**69**	**7,726**

2019/20	Property £000	Equipment £000	Contract Hire £000	**Total £000**
Not later than 1 year	1,580	373	4	**1,957**
Later than 1 year but not later than 5 years	4,433	507	0	**4,940**
Later than 5 years	3,604	1	0	**3,605**
	9,617	**881**	**4**	**10,502**

The expenditure charged to cost of services in the comprehensive income and expenditure statement was:

2018/19	Property £000	Equipment £000	Contract Hire £000	**Total £000**
Minimum lease payments	1,211	487	36	**1,734**
	1,211	**487**	**36**	**1,734**

2019/20	Property £000	Equipment £000	Contract Hire £000	**Total £000**
Minimum lease payments	1,580	396	28	**2,004**
	1,580	**396**	**28**	**2,004**

Operating leases (Council as Lessor)

The rental received for operating property leased to third parties for the year is £2.133 millions of which £1.059 millions relates to smallholdings. The gross value of smallholdings at 31 March 2020 is £16.106 millions. Property leases are often for parts of assets for which individual valuations are not maintained and therefore an exact valuation is not provided.

The future minimum lease payments due under non-cancellable leases in future years are:

2018/19 £000		2019/20 £000
2,067	Not later than 1 year	2,279
5,789	Later than 1 year but not later than 5 years	5,987
1,891	Later than 5 years	3,368
9,747		**11,634**

The expenditure charged to Cost of Services in the Comprehensive Income and Expenditure Statement was:

2018/19 £000		2019/20 £000
2,067	Minimum lease payments	2,279
2,067		**2,279**

37. Pensions

As part of the terms and conditions of employment of its officers and other employees, the County Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments (for those benefits) and to disclosed them at the time that employees earn their future entitlement.

The County Council participates in three different pension schemes:

- The Local Government Pension Scheme;
- The Teachers Pension Scheme; and
- The NHS Pensions scheme

Unfunded Benefits

Unfunded Benefits are a defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

37.1 Defined Benefit Pensions Schemes

The Local Government Pension Scheme (LGPS), administered locally by Devon County Council, is a funded defined benefit final salary scheme with its benefits defined and set in law, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The LGPS is contracted out of the State Second Pension Scheme (S2P) and must, in general, provide benefits at least as good as most members would have received had they remained in S2P. The Pensions Act 2014 introduces a new State Pension for people reaching State Pension age on or after 6 April 2017. The new scheme will replace the existing basic and additional State Pension and end contracting-out and the National Insurance rebate.

The LGPS provides significant retirement and death benefits to its members which include the following:

- A guaranteed pension calculated as 1/60th of the member's final salary multiplied by the amount of service between April 2008 and March 2014
- A guaranteed pension calculated as 1/80th of the member's final salary multiplied by the amount of service up to April 2008
- A Tax free lump sum upon retirement calculated using the formula 3/80ths of the member's final salary multiplied by the amount of service up to April 2008. Options are available to increase the lump sum
- Ability to increase benefits by paying additional voluntary contributions
- An Ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 55
- Death in Service lump sum of salary multiplied by 3
- Widow’s/widower’s/civil partner’s/co habiting partner pension payable for life
- Children’s pension
- Benefits rise in line with inflation

The Local Government Pension Regulations 2013 commenced on 1 April 2014 for all future LGPS membership.

Some of the main provisions of LGPS 2014 are as follows:

- A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI
- The Accrual rate will be 1/49th
- Retirement age linked to State Pension Age
- A 50/50 option where members can elect to pay half the contributions for half the pension.
- Benefits for service prior to 1st April 2014 are protected and keep the final salary link.

The Pension Liability does not represent an immediate call on the Authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

Page 125 Pension Fund Accounts provides more information on the regulatory framework of the LGPS and the Authority's role as an Administrating Authority.

Transactions relating to Retirement Benefits

The County Council recognises the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme and Unfunded Benefit Arrangements - Liabilities		
Comprehensive Income and Expenditure Statement	**2018/19 £000**	**2019/20 £000**
Cost of Services:		
Service cost comprising:		
Current service cost	62,504	64,804
Past service costs, including curtailments	1,069	14,010
(Gain)/loss from settlements	(5,980)	(4,333)
Pre 01/04/98 unfunded benefits actuarial (gains)/losses	(82)	69
Financing and Investment Income and Expenditure:		
Net interest expense	27,398	24,552
Administration expense	912	961
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**85,821**	**100,063**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(38,085)	135,821
Actuarial gains and (losses) arising on changes in demographic assumptions	(135,969)	(36,631)
Actuarial gains and losses arising on changes in financial assumptions	82,746	(213,888)
Experience loss/(gain) on defined benefit obligation	0	69,138
Other actuarial gains/(losses)	0	(5,778)
Remeasurement of the net defined benefit liability	**(91,308)**	**(51,338)**
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**(5,487)**	**48,725**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code (Note 8)	**85,821**	**100,063**

	Funded Liabilities 2018/19	2019/20	Unfunded Liabilities 2018/19	2019/20	Total Liabilities 2018/19	2019/20
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Actual amount charged against the General Fund Balance for pensions in the year:						
Employers contributions payable to scheme	38,551	39,960	0	0	38,551	39,960
Retirement benefits payable to pensioners	0	0	7,959	7,786	7,959	7,786
Contribution to pre 01/04/98 unfunded benefits	0	0	(2,303)	(2,247)	(2,303)	(2,247)
	38,551	**39,960**	**5,656**	**5,539**	**44,207**	**45,499**

The estimated duration of the liabilities is 19 years.

The capitalised cost of curtailments arising as a result of the payment of unreduced pensions to former employees on early retirement to the Authority is £0.119 millions (£1.069 millions 2018/19).

As a result of some members transferring to/from another employer over the year liabilities have been settled at a cost different to the IAS19 reserve. The capitalised gain of this settlement is £4.333 millions (£5.980 millions gain 2018/19).

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme 2018/19 £000	2019/20 £000	Unfunded Liabilities 2018/19 £000	2019/20 £000	Total 2018/19 £000	2019/20 £000
Present value of the defined benefit obligation	(2,269,969)	(2,166,179)	(111,235)	(101,719)	(2,381,204)	(2,267,898)
Fair value of plan assets	1,331,667	1,217,451			1,331,667	1,217,451
Net liability arising from defined benefit obligation	**(938,302)**	**(948,728)**	**(111,235)**	**(101,719)**	**(1,049,537)**	**(1,050,447)**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Local Government Pension Scheme and Unfunded Benefit Arrangements	**2018/19**	**2019/20**
	£000	**£000**
Opening fair value of scheme assets	1,280,882	1,331,667
Interest income	32,411	31,779
Administration Expenses	(912)	(961)
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	38,085	(135,821)
Other Actuarial gains/(losses)	0	5,778
Employer contributions	46,510	47,746
Contributions by scheme participants	12,106	12,443
Settlement prices received/paid	(2,897)	(2,581)
Benefits paid	(74,518)	(72,599)
Total Assets	**1,331,667**	**1,217,451**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Local Governement Pension Scheme and Unfunded Benefits - Liabilities	**2018/19 £000**	**2019/20 £000**
Opening balance	(2,382,334)	(2,381,204)
Current Service Cost	(62,504)	(64,804)
Interest Cost	(59,809)	(56,331)
Contributions from scheme participants	(12,106)	(12,443)
Remeasurement gains/(losses):		
Actuarial gains and losses arising on changes in demographic assumptions	135,969	36,631
Actuarial gains and losses arising on changes in financial assumptions	(82,746)	213,888
Experience (loss)/gains on defined benefit obligation		(69,138)
Past service costs, including curtailments	(1,069)	(14,010)
Liabilities assumed/(extinguished) on settlements	8,877	6,914
Benefits paid	74,518	72,599
Total (Liability)	**(2,381,204)**	**(2,267,898)**

Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	**31 March 2019**		**31 March 2020**	
	£000	**%**	**£000**	**%**
Gilts	45,727	3%	51,933	4%
UK Equities	221,224	17%	162,005	14%
Overseas Equities	572,706	43%	523,572	43%
Property	117,704	9%	114,688	9%
Infrastructure	48,907	4%	52,455	4%
Target Return Portfolio	188,524	14%	159,858	13%
Cash	21,288	1%	14,178	2%
Other Bonds	23,426	2%	63,787	5%
Alternative assets	70,333	5%	74,975	6%
Private equity	21,828	2%	0	0%
Net Asset / (Liability)	**1,331,667**	**100%**	**1,217,451**	**100%**

Fair Value of Scheme Assets

	31 March 2020			
	£000	**% Quoted**	**£000**	**% Unquoted**
Fixed interest government secutities				
UK	2,435	0.2%	0	0.0%
Overseas	49,915	4.1%	0	0.0%
Corporate bonds				
UK	1,217	0.1%	0	0.0%
Overseas	29,219	2.4%	0	0.0%
Equities				
UK	161,922	13.3%	0	0.0%
Overseas	523,504	43.0%	0	0.0%
Property				
All	0	0.0%	114,440	9.4%
Others				
Absolute return portfolio	159,486	13.1%	0	0.0%
Private Equity	0	0.0%	0	0.0%
Infrastructure	0	0.0%	52,350	4.3%
Multi sector credit fund	75,482	6.2%	0	0.0%
Private Debt	0	0.0%	32,871	2.7%
Cash/Temporary investments	0	0.0%	13,393	1.1%
Net current assets				
Debtors	0	0.0%	1,217	0.1%
Creditors	0	0.0%	0	0.0%
	1,003,180	**82.4%**	**214,271**	**17.6%**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Barnett Waddingham LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31st March 2016.

The significant assumptions used by the actuary have been:

	Funded		**Unfunded**	
	2018/19	**2019/20**	**2018/19**	**2019/20**
Long-term expected rate of return on assets in the scheme:				
Discount rate	2.40%	2.35%		
Mortality Assumptions:				
Life Expectancy from age 65 (years) - Retiring today:				
Men	22.4	22.9	22.4	22.9
Women	24.4	24.1	24.4	24.1
Life Expectancy from age 65 (years) - Retiring in 20 years:				
Men	24.1	24.3	24.1	24.3
Women	26.2	25.5	26.2	25.5
Rate of Inflation RPI	3.40%	2.70%		
CPI	2.40%	1.90%		
Rate of increase in salaries	3.90%	2.90%		
Rate of increase in pensions	2.40%	1.90%		
Rate of discounting scheme liabilities	2.40%	2.35%		

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the previous table. The following sensitivity analyses have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

		31 March 2020	
Sensitivity Analysis	**£000**	**£000**	**£000**
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	2,225,295	2,267,898	2,311,359
Projected service cost	59,236	60,775	62,356
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	2,271,152	2,267,898	2,264,670
Projected service cost	60,775	60,775	60,775
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	2,308,256	2,267,898	2,228,295
Projected service cost	62,361	60,775	59,228
Adjustment to mortality age rating assumption	+ 1 Year	0.0%	- 1 Year
Present value of total obligation	2,359,911	2,267,898	2,179,711
Projected service cost	62,568	60,775	59,033

Impact on the Authority's Cash Flows

The most recent triennial valuation at 31st March 2019 set the authority's contributions for the subsequent 3 years beginning 2020/21. The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% in no more than 20 years to March 2040. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The contributions due to be paid in the next financial year are estimated to be £38.547 millions (£38.921 millions paid in 2019/20).

37.2 Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pensions Scheme

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20, the authority paid £18.307 millions (£15.186 millions in 2018/19) to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay for the first five months of the year to the new percentage 23.68% for the remainder. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £18.368 millions.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis.

The Authority is not liable to the scheme for any other entities' obligations under the plan.

NHS Pensions Scheme

Members of staff previously employed by the NHS, who transferred to the authority as part of public health services and activities, remained members of the NHS Pension Scheme, administered by the NHS Business Services Authority. The scheme provides members with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded multi-employer defined benefit scheme and has in excess of 9,000 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

From the 1st April 2019 NHS Pensions employer contribution rate increased from 14.3% (2018/19) to 20.6%, an increase of 6.3%, of which 2.5% is paid by the Authority and 3.8% is paid directly by the Department of Health and Social Care. The Authority paid £1.11 millions in respect of 2019/20 (£147,467 in 2018/19). The increase is mainly due to 200 Virgin Care/Public Health Nursing staff TUPE transferring to the Authority in April 2019. Contributions of £79,000 remained payable at 31 March (£12,556 in 2018/19). The employers' contributions for 2020/21 are estimated to be £1.13 millions.

The Authority is not responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS Pensions Scheme.

The Authority is not liable to the scheme for any other entities' obligations under the plan.

From 1 April 2015 there is a new NHS Pension Scheme, the 2015 Scheme. This scheme has different features to the existing 1995/2008 Scheme

Some of the main provisions of the 2015 Scheme are as follows:

A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI +1.5%;

Normal Pension Age (NPA) at which benefits can be claimed, without reduction for early payment, will be linked to the same age as a member is entitled to claim their state pension;

- No limit on the number of years pension that can build up; and
- Final pension calculated by adding together all of the revalued pension earned in each year of membership.

It was identified during the transfer process that 10 transferring staff were contributing members of a life assurance scheme provided by private life by Canada Life, an historic arrangement to offer contributing members an enhanced death in service cover to extend their NHS cover from a payment of two years' salary to an employee's surviving relative, to three years' salary. This was provided at a cost of £1 per contributing member supplemented by contributions by the NHS.

Devon County Council has kept the arrangement for existing members by underwriting the value of the benefit and funding the payment of the same terms of death in service benefit in the event of the death of one of the existing staff members who are part of the Canada Life Scheme. The liability would only be in respect of 10 members of Public Health staff and ceases on the employee either leaving employment with the Authority or retiring.

37.3 Legal Judgement in respect of changes to Public Sector Pensions

A judgement in the Court of Appeal about cases involving judges' and firefighters' pensions (the McCloud / Sargeant judgement) has the potential to impact on the Council. The cases concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

However, the potential impact is uncertain. Even though the Supreme Court has refused the Government's application to appeal the judgement, no decisions have been made about the remedies that would be required and the extent to which additional costs would fall on the Authority.

On the presumption that the remedy is for the Authority to incur costs in extending protections to all members who were active at 31 March 2012 until their retirement, the Pension Fund's Actuary has advised an indicative impact on Devon County Council of:

- a potential increase in pensions liabilities of £13.9 millions (0.6% of total pension liabilities currently in the Balance Sheet at 31 March 2020); and
- the impact to the projected service cost for 2020/21 is estimated to be 3%.

This estimate from the Pension Fund's Actuary of the potential impact of the McCloud/Sargeant judgement, which is included in the net liability as a past service cost, is based on the disclosure paper from the Government Actuary's Department (GAD) and the assumption that salaries are assumed to increase at 1.5% each year above CPI in addition to a promotional scale. However, the actuary has allowed for adjustment to remove members unlikely to be affected by the outcome of the judgement.

The High Court recently ruled on the equalisation of GMPs (Guaranteed Minimum Pensions) between genders The actuary has assumed for GMP that the Fund will pay limited increases for members that have reached SPA (State Pension Age) by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the actuary has assumed that the Fund will be required to pay the entire inflationary increase. Therefore, the actuary has not made any adjustments to the value placed on the liabilities as a result of the equalisation of GMPs.

38. Contingent Liabilities

Babcock LDP LLP

From 1 April 2012 a joint venture called Babcock LDP LLP between Devon County Council and Babcock International took effect. In order to limit risks to the joint venture, cost sharing arrangements are in place for pension costs should certain trigger points be reached. Pension costs are subject to a cap and collar arrangement where, should the employer's contribution rate move upwards or downwards by more than 4%, a financial adjustment will be made. The expectation is that the Authority would either incur additional cost if the rate increases or benefit if it decreases around the 4% threshold. Babcock's contribution changed from 16.1% in March 2020, to 17.1% from April 2020. There is no additional liability to the Authority as the rate moved within the 4% threshold set. This will next be reviewed and changed from April 2023.

Guarantees

The Authority has provided a number of guarantees. These are detailed as follows:

- In 2013/14, the Authority guaranteed 50% of a loan of £5.304 millions made to Exeter Science Park Ltd from the Local Enterprise Partnership. The Authority has provided for a liability of £1.831 millions at 31 March 2020 (£1.831 millions at 31 March 2019). The Authority's Cabinet agreed a further guarantee on 11th December 2019. The risk of the guarantee being called upon is assessed as low. Consequently, there is no liability recognised in the Authority's balance sheet.
- A guarantee has been provided to NPS (SW) Ltd. to meet obligations in relation to rent of premises. Should the company fail to meet its obligations under the terms of the lease it will be assigned to the County Council. The premises will be available for sub-letting.
- The Authority together with 14 other authorities in the South West has given a guarantee to the Avon Pension Fund in respect of employer liabilities of South West Grid for Learning Trust.
- CSW Group Ltd (formerly Careers South West Ltd and Connexions Devon and Cornwall Ltd) became a public sector controlled company at 1 April 2008. Details of the pension guarantee are provided in Note 34.6.
- The Authority has given guarantees to foster carers and children's placement providers for uninsurable losses in relation to fire damage to their properties. The guarantees extend to three properties with an estimated value of £1.9 millions (£1.2 millions in 2018/19).
- The Authority remains responsible for the historic pension liabilities of former staff who transferred to Libraries Unlimited on 1 April 2016. These liabilities are not separately identified by the actuary but are included in the Authority's overall pension fund balance in Note 37. Libraries Unlimited is responsible for meeting the current employers' contributions as determined by the actuary to the Devon Pension Fund.
- The Authority has provided a pension bond up to £600,000 for DYS Space Ltd, which is a public sector mutual established by former staff to provide Youth Services in Devon, for which the Authority received £18,000 in 2019/20 (£18,000 in 2018/19).

South Devon Link Road

The Authority has received claims from residents, living near to the South Devon Link Road regarding noise levels. The potential costs of these claims are included in the Authority's future capital programme for retention costs.

Glossary of Terms

ACCOUNTING POLICIES

Accounting policies determine the basis on which income and expenditure, assets and liabilities, transactions and adjusting events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised, how it is to be measured and where in the comprehensive income and expenditure statement or balance sheet it is to be presented.

ACCRUALS

Except for the cash flow statement, the statement of accounts is prepared using the accruals basis of accounting. This requires the non cash effects of transactions to be reflected in the accounting period during which those effects are experienced and not in that during which any cash is paid or received. On this basis, income and expenditure is reported when the related activity or benefit actually occurs.

ACTUARY

An actuary is an expert on pension scheme assets and liabilities. Actuaries compute the actuarial charges falling due in each year in accounting for retirement benefits. Actuaries also make recommendations every three years regarding the rate of employer contributions due to the local government pension scheme.

AMORTISATION

Amortisation represents the use of economic benefits derived from intangible assets and is charged on a straight line basis over their useful lives. These are reviewed annually. Amortisation is charged with but is distinct from impairment charges.

APPROPRIATION

Certain charges and credits which are made to the comprehensive income and expenditure account do not affect the authority's funding requirements and so are not chargeable to the general fund. In such cases appropriation of the amount concerned is made from the general fund to the relevant unusable reserve. The authority may also set sums aside for planned future expenditure by appropriation of the funding to earmarked reserves. All appropriations are included in the movement in reserves statement.

ASSOCIATE

An associate is an entity over which the authority has significant influence. This means that investment by the authority is such that it has power to participate in the operating and financial policy decisions of the entity (though not to the extent of control, which would create a subsidiary). Investment takes account of contractual connections, participation in governance and executive interchange as well as the level of financial investment.

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

This is classified as an unusable reserve and carries the valuation surplus of those equity investments which are regarded under the Code as available for sale. The surplus comprises the amount by which fair value exceeds historical cost.

BALANCE SHEET

The balance sheet is one of the primary financial statements and presents the authority's recognised assets, liabilities and reserves as at the end of each financial year. It shows the distribution of assets in relation to short and long term liabilities and the extent to which the authority's net worth is available in usable and unusable reserves. Each balance sheet element is recognised and valued in accordance with the Code of Practice on Local Authority Accounting (the Code) as set out in supporting notes.

BUDGET

A budget is approved annually by the authority and sets out the council tax requirement for the next financial year. This council tax precept funds the planned spending programme which is presented net of income from grants, fees and charges and other sources. The budget does not include any of the adjustments needed to comply with financial reporting standards and, as such, is not truly comparable with the results as shown in the statement of accounts for the same period.

CAPITAL ADJUSTMENT ACCOUNT

The capital adjustment account records the funding from internal resources of capital expenditure and the financing (under statute) of certain revenue expenditure. It also includes (for existing property, plant and equipment) the revaluation gains accumulated prior to 1 April 2007 (the date on which a separate revaluation reserve was established). It is an unusable reserve and relevant adjustments are summarised in the movement in reserves statement. Categorised as timing adjustments, these typically comprise period depreciation, amortisation and impairment debits, charges for financing of certain revenue expenditure under statute or for repayment of financial assistance for capital purposes, revaluation deficit adjustments, credits for financing charges to revenue (including MRP) and for unconditional grants applied to capital expenditure. Finally, there are adjustments in respect of assets reclassified (as investments or assets held for sale) or de-recognised on disposal.

CAPITAL CHARGES

Depreciation, amortisation and downward revaluations (subject to restriction) are charges made to the comprehensive income and expenditure account for the use, depletion or impairment of non current assets during each financial period. These charges do not affect the funding position of the authority and are accordingly appropriated from the general fund to capital adjustment account. Capital charges reduce the carrying value of property, plant and equipment and of intangible assets and correspondingly reduce the capital adjustment account and (again, subject to restriction) the revaluation reserve.

CAPITAL EXPENDITURE

Capital expenditure is expenditure on the construction, acquisition, development or improvement of property, plant and equipment and of intangible assets (principally, software licenses). Under legislation it may be financed from capital sources or from funds set aside from revenue. It is to be distinguished, however, from revenue expenditure funded from capital under statute (REFCUS) which is charged as revenue expenditure in the comprehensive income and expenditure account and only matched with its capital funding by transfer in the movement in reserves statement.

CAPITAL RECEIPTS

Capital receipts are income received from the sale of property, plant and equipment or intangible assets. They are available only to finance new capital expenditure or to repay debt. Until this occurs they are held on the capital receipts reserve.

CASH FLOW STATEMENT

The cash flow statement summarises the inflows and outflows of cash and cash equivalents resulting from operations, and from investing and financing activities. It also shows, by way of note, how the net cash flow from operations is related to the net surplus or deficit on the provision of services.

CIPFA

CIPFA (The Chartered Institute of Public Finance and Accountancy) is the lead body for setting standards in public sector accounting practice.

COMPONENTISATION

Assets may be analysed into various components that have significantly different estimated lives and differentially depreciated accordingly. The authority's policy on componentisation is described under the accounting policies in Note 2.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The comprehensive income and expenditure account shows the net cost in the year of providing services in accordance with generally accepted accounting practices (rather than the amount to be funded from taxation). It discloses the gross income and expenditure of continuing operations analysed by service, any exceptional items, other operating expenditure, financing and investment income and expenditure, and taxation and non-specific grant income. These items together comprise the surplus or deficit on the provision of services. Below this line, valuation and actuarial gains and losses are included in order to arrive at the total comprehensive income and expenditure. Those elements which, under statutory regulations, are not to be accounted for in the general fund are transferred to unusable reserves as shown in the movement in reserves statement.

CONTINGENT LIABILITIES

Contingent liabilities arise where, firstly, past events precipitate a present obligation which is either unlikely to result in a transfer of economic benefit or cannot be measured with sufficient reliability. Secondly, past events may give rise to a possible obligation whose existence can only be confirmed by some future occurrence not wholly under the authority's control. A contingent liability is not provided for, therefore, either because of the improbability of outflow or the inability to measure it. Contingent liabilities are disclosed by way of note.

CONTRIBUTIONS

Contributions are receivable from health authorities, other local authorities and other non-governmental bodies in respect of the authority's functions carried out independently. They are distinguishable from fees and charges income, which is received under a contract of supply. The same distinction applies to contributions paid by the authority. Contributions receivable are distinguished from grant income only in that grants are received from UK or EU governments (or their agencies).

CREDIT LOSS

Credit loss is the difference between all contractual cash flows that are due to the Authority and all the expected cash flows (i.e. cash shortfalls) discounted at the effective rate of interest.

CREDITORS

Creditors are amounts due to third parties as at the balance sheet date arising from goods or services that have been received but for which payment has not been made, from income received in advance of supply, or from unspent grant monies covered by a repayment clause. Creditors also include provisions and amounts held on account for payment.

CURRENT ASSETS/LIABILITIES

Current assets are amounts owed to the authority and due for payment within twelve months or items, such as stocks, that can be readily converted to cash. Current liabilities are amounts that the authority owes to other bodies, and due for payment within twelve months of the balance sheet date.

CURRENT VALUE

The Code has introduced the concept and definition of current value to the measurement of property, plant and equipment. Current value measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date.

For non-specialised assets, current value should be interpreted as existing use value. In the RICS Valuation – Professional Standards, this is market value based on the assumption that property is sold as part of the continuing enterprise.

For specialised assets where no market exists, current value should be interpreted as the present value of the assets' remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. Under these circumstances, property, plant and equipment is measured at Depreciated Replacement Cost.

DEBTORS

Debtors are amounts owed to the authority at the balance sheet date where services have been delivered but payment has not been received. An unexpired period in a period-based charge is also included under debtors as expenditure in advance.

DEPRECIATION

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. As charged in the comprehensive income and expenditure account it represents the measure of the cost or re-valued amount consumed during the period. Depreciation is distinct from impairment.

DERECOGNITION

Derecognition is the removal of an asset or liability from the balance sheet. When an asset is sold or disposed of - it is derecognised.

EFFECTIVE INTEREST RATE (EIR)

The EIR is the rate that exactly discounts future cash payments or receipts to the gross carrying value of a financial asset or amortised cost of a liability. Where contractual interest rates may vary over the lifetime of a financial asset / liability the EIR is the rate when applied to future cash flows will discount to the original amount.

ENTITY

An entity is a body corporate, partnership or unincorporated association which has an autonomous financial structure, and which is legally capable of contracting and making binding decisions under its own name.

EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (fees and charges, government grants, council tax and business rates) as reported in the budget book and outturn report - used for decision making. It compares with those resources consumed or earned in accordance with generally accepted accounting practices (i.e. the Comprehensive Income and Expenditure Statement).

EQUITY INSTRUMENT

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. There cannot be any contractual requirement for the issuer to deliver cash or another financial asset to the Authority on redemption.

FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FINANCIAL GUARANTEES

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The financial instruments adjustment account is an unusable reserve which holds cumulative timing differences arising from valuation adjustments to loans and receivables accounted for as financial instruments. Annual charges and credits included in the comprehensive income and expenditure account are transferred to the reserve as shown in the movement in reserves statement.

GENERAL FUND

The general fund is the usable revenue reserve which finances the authority's working capital. It represents the cumulative net budget surplus after appropriations to or from earmarked reserves and consists of two elements: the county fund and reserves held by schools under delegated management. The county fund balance is evaluated under the authority's risk management strategy as the amount required to fund operations without borrowing before the first precept payments are received.

GOVERNMENT GRANTS

These are sums of money paid UK or EU governments, or their agencies, in order to fund the activities of the authority. Grants in support of local government services may be for general application or, where restricted to specified services, ring-fenced. The amount of grant income credited to the comprehensive income and expenditure account for the year represents the value received (or due to be received) in the year less any such amounts which are repayable by virtue of a condition which has not been satisfied. Outstanding conditions are normally satisfied in the following year in which case the liability is transferred to income at that stage.

The following bodies (shown together with their common abbreviations) award grants to the authority and are the sources of income in the analysis of government grants:

CSPN = County Sports Partnership Network

CWDC = Children's Workforce Development Council

DBERR = Department for Business, Enterprise and Regulatory Reform

DCMS = Department for Culture, Media & Sport

DEFRA = Department for Environment, Food & Rural Affairs

DfE = Department for Education

DfT = Department for Transport

DHSC = Department of Health and Social Care, formerly DH - Department of Health, now with Social Care responsibilities

DIUS = Department for Innovation, Universities and Skills

DTI = Department of Trade & Industry

DWP = Department for Work & Pensions

ESFA = Education and Skills Funding Agency - combination of EFA - Education Funding Agency and SFA Skills Funding Agency

EU = European Union

HEFCE = Higher Education Funding Council for England

HLF = Heritage Lottery Fund

HO = Home Office

MHCLG = Ministry of Housing, Communities and Local Government, replaced DCLG from January 2018

MoD = Ministry of Defence

NE = Natural England

P4S = Partnership for Schools

PSA = Public Service Agreement

SCITT	= School Centred Initial Teacher Training
SDF	= Sustainable Development Fund
TDA	= Training and Development Agency
YJB	= Youth Justice Board

HERITAGE ASSETS

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. They are reported under a separate heading in the balance sheet (or notes thereto) and are included at fair value.

IMPAIRMENT

Impairment is the charge made in order to reduce the carrying amount of property, plant and equipment or intangible assets to the recoverable amount. An impairment loss is recognised when a specific asset's remaining service potential has been detrimentally affected by, for example, obsolescence, damage, or the adverse effects of reorganisation or regulatory changes. It is distinct from revaluation losses which, being price based, are non-specific in nature. Impairment also applies separately to financial instruments and to council tax collection.

INFRASTRUCTURE ASSETS

Infrastructure assets are part of property, plant and equipment (principally highways and footpaths) that are regarded as inalienable from the fabric of the Authority's responsibilities. As such, these assets have no resale value and are included in the balance sheet, subject to any impairment, at depreciated historical cost.

INTANGIBLE ASSETS

Intangible assets have no physical substance but have a value in use of more than one year. These assets are not considered as marketable and are included in the balance sheet, subject to any impairment, at amortised historical cost. All intangible assets currently owned by the authority are software licences.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These standards are issued by the International Accounting Standards Board. They are adapted under the auspices of CIPFA so as to apply to local authorities and consolidated in the Code of Practice on Local Authority Accounting (The Code).

JOINT OPERATION

A joint operation is a binding collaborative arrangement which requires the unanimous consent of the authority and at least one other party (together exercising joint control) and in which the rights and obligations of each party are identified in relation to the income and expenditure, and assets and liabilities arising under the arrangement.

JOINT VENTURE

A joint venture is a binding collaborative arrangement which requires the unanimous consent of the authority and at least one other party (together exercising joint control) and which is carried on through a separate vehicle where the rights of each party are identified in relation to the net assets of an autonomous financial structure.

LEASES

Two types of leases are accounted for. Finance leases transfer substantially all the risks and rewards of ownership of the assets concerned to the authority as lessee; operating leases do not. The type of lease concerned in a particular case will be determined using a list of prescribed criteria which include, for example, the length of the contract (in relation to the life of the asset), the nature of the asset (whether for specialist or general use) and the allocation of responsibility for maintenance and insurance. Operating leases are included simply as expenditure in the comprehensive income and expenditure account. Finance leases are capitalised as corresponding assets (within property, plant and equipment) and liabilities (discounted to net present value). The lease payments are similarly disaggregated as repayment of principal and interest while depreciation is charged annually to the service for which it is used.

LENDER OPTION BORROWER OPTION LOAN (LOBO)

Included in the Authority's borrowings are loans structured as LOBOs. These are fixed term loans with one or more options exercisable at specified dates, which allow the lender to charge a higher interest rate. If such an option is exercised, the borrower may then opt to repay the principal outstanding immediately. LOBOs are accounted for under reporting standards applying to Financial Instruments.

MINIMUM REVENUE PROVISION (MRP)

MRP represents the minimum amount that, under government regulations, must be appropriated from the general fund each year in order to fund the repayment of existing debt.

MOVEMENT IN RESERVES STATEMENT

The movement in reserves statement sets out transfers between reserves which are made in arriving at their balance sheet values. The surplus or deficit on the provision of services is carried to the general fund. Appropriations are then made (to exclude non-monetary charges and credits) to unusable reserves except for asset disposal sales proceeds and unapplied capital grants, which are usable reserves. Other discretionary appropriations are made to earmarked reserves for projected future spending. Appropriations are also made between the capital adjustment account and either the capital receipts reserve or capital grants unapplied reserve in order to reflect the application of capital grants and disposal receipts already credited to the comprehensive income and expenditure account. Adjustments to revaluation surpluses similarly involve capital adjustment account and the revaluation reserve.

NET BOOK VALUE/NET CARRYING AMOUNT

Net book value is the carrying amount at which assets and liabilities are included in the balance sheet under the Code. In the case of financial instruments, it is stated after including any timing adjustments and, in the case of property, plant and equipment and intangible assets, any revaluation, depreciation or amortisation. In all cases it is stated after any recognised impairment.

OUTTURN

Outturn represents the annual results of the revenue and capital programmes which the authority reports in order to account for its use of public funds under government legislation. It is reported in the same terms as the budget under which council tax funding was originally raised. The outturn report is not subject to external audit and does not apply the Code, nor does it include a balance sheet. As such it is not truly comparable with the statement of accounts.

PRECEPTS & LEVIES

A levy is a charge made by one statutory body on another in order to meet the net cost of its services. A precept is a charge made by a statutory body upon the council tax collection fund of a billing authority.

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts, and also public-private partnerships (PPP), typically involve a private sector operator constructing or enhancing assets used in the provision of a public service, and operating and maintaining those assets for a specified period of time on behalf of the authority after which the assets pass to the authority for little or no incremental consideration. Under the Code, contractual charges made by the operator on the authority fall under two headings, finance lease (to finance construction or enhancement) and service provision (to finance operation and maintenance), and each heading is accounted for accordingly over the period of each contract. In cases where no asset is to pass to the Balance Sheet, all charges are made annually to the comprehensive income and expenditure account. Under the finance lease model, the liability remains with the Authority even where assets subsequently vest in schools on a change of status.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are adjustments, applicable to prior years, arising from changes in accounting policies or from the correction of material errors. They do not include corrections of recurring items or adjustments of accounting estimates made in prior years.

PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are included in the balance sheet under the heading of property, plant and equipment. Such assets are carried at current value and are regularly revalued in order to ensure that this remains the value at which they are reported annually. Where there is no market-based evidence of current value (because of the specialist nature of an asset), depreciated replacement cost is used as an estimate of current value. Depreciation is charged annually by reference to the remaining useful life of an asset or of each class of component making up that asset.

Surplus assets are valued at fair value.

PROVISIONS

A provision is a liability of uncertain timing or amount. It is recognised when there is a present obligation (whether legal or constructive) as a result of a past event where a transfer of economic benefit is likely to result and a reliable estimate of this transfer can be made.

PUBLIC WORKS LOAN BOARD

The Public Works and Loans Board is a government agency which provides long term loans to local authorities.

RELATED PARTIES

Parties are considered to be related if one party has the ability either to control the other party or to exercise significant influence over it in making financial or operating decisions. Parties are also related if they are subject to common control. Related parties include subsidiaries, associates, joint ventures, and possibly other entities or individuals. Central government is a related party by this definition. Related parties attract additional disclosure requirements in order to identify the extent to which the authority may exercise or be subject to influence or control. The statement of accounts includes the following in this respect:

- Details of significant government grants and the awarding bodies;
- Transactions with subsidiary and associated companies;
- Transactions with the pension fund.
- Transactions with related individuals not applicable to other members of the community (for example, members and chief officers)

REVALUATION RESERVE

The revaluation reserve is an unusable reserve holding revaluation gains on property, plant and equipment and intangible assets. Each revaluation is asset specific, allowing no offset, and restricted to operational assets, thus excluding investment properties and surplus assets. Accounting for changes in valuation is closely prescribed and distinct from the treatment of impairment. Revaluations cannot be grouped or offset, and a revaluation deficit is appropriated to capital adjustment account.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

REFCUS is revenue expenditure that is funded from capital either because it is capital in nature (but does not result in an asset) or because capital financing has been allowed by specific regulation. REFCUS is included accordingly in the comprehensive income and expenditure account and appropriated from general fund to capital adjustment account in the movement in reserves statement.

SECTION 151 OFFICER

The section 151 officer is the council officer designated under that section of the Local Government Act 1972 to take overall control of the financial affairs of the authority and to take personal responsibility for its financial administration. At Devon County Council the Section 151 Officer is the County Treasurer.

SUBSIDIARY

A subsidiary is an entity which is under the control of the authority. This means that investment by the authority is such that it has decisive power over the entity, has the ability to direct all its substantial activities and enjoys rights (or suffers exposure) to variable returns. Investment takes account of contractual connections, participation in governance and executive interchange as well as the level of financial investment.

UNUSABLE RESERVES

Unusable reserves are reserves that the authority is not able to utilise to provide services. These reserves fall into two categories, namely: revaluation balances and adjustment accounts. Revaluation gains held under the first category only become available for use when the assets to which they relate are disposed of and the gain realised as a capital receipt. In the second category, each reserve is named after the adjustment variously required to report the comprehensive income and expenditure account under the accounting basis. These adjustments are realised only by reversal and thus constitute timing differences. By these adjustments, the general fund continues to be stated under the funding basis required by regulation.

USABLE RESERVES

Usable reserves are reserves available to the authority for the provision of services although there may be statutory limitations on the type of use in each case. Reserves usable for capital expenditure consist of the capital receipts reserve (which may also be applied in the repayment of borrowings) and capital grants unapplied. Usable revenue reserves consist of the general fund together with any earmarked reserves set aside from general fund for specified future expenditure.

VALUATION

Assets and liabilities are included in the balance sheet at their carrying amounts, which are valuations determined in accordance with the Code. These are set out in the note on accounting policies.

Pension Fund Statement of Accounts 2019/20

Report of the County Treasurer

Over the course of the 2019/20 year, the value of the Devon Pension Fund decreased from £4.302 billion (as at 31 March 2019) to £4.011 billion as at 31 March 2020, a decrease of around £291 million. Up until the end of December, the Fund was performing well with a return of +7.6% for the financial year to date. But then the world was hit by the coronavirus Covid-19 pandemic. Global markets suffered huge losses, including the biggest fall of US and UK markets in a single day since 1987. As a result, the Devon Pension Fund's investment return for the year, net of fees, was -8.0%. This was below the Fund's strategic benchmark of -4.9%. The impact of the coronavirus on the world economy has been huge and much uncertainty remains. It is likely to take several years for the global economy to recover and this will present significant challenges to the management of the pension fund.

The performance of the administration team has improved significantly following the restructure in 2018/19, and it is anticipated that this trend will continue as staff adapt to the new ways of working. Peninsula Pensions is now well-positioned to manage and respond to the ever increasing workloads and demands caused by a growth in the number of members and employers joining the fund, increases in requests for information and to ensure continued compliance with future regulations changes. The situation with Covid-19 presented a different challenge to overcome. Early action was taken to identify and mitigate potential risks from an operational perspective, and communications were issued to all fund members and employers explaining how the team intended to communicate and operate during the pandemic. Communication and technology, including 'Member Self-Service' (our online communication portal) and remote working, have enabled the team to continue to conduct business as usual and there has been no impact on service provision.

Along with nine other Local Government Pension Scheme (LGPS) funds, the Devon Pension Fund is a shareholder in the Brunel Pension Partnership Ltd, a company set up to pool investment assets in order to reduce investment costs and improve risk management. Since the company was set up two years ago the Devon Fund has been gradually transitioning its investment assets. During the Autumn of 2019, the management of the global equities and emerging markets portfolios transitioned from Aberdeen Standard Investments across to Brunel, and management of the property fund assets transferred from La Salle to Brunel. By 31 March 2020, around 65% of the Devon Fund's investment assets were under Brunel's management. The Devon Pension Fund will continue to be responsible for deciding the strategic allocation between different asset classes to meet local investment objectives, but the Brunel Pension Partnership will be responsible for selection and monitoring of the external investment managers who will manage the investments.

Summary of Financial Statements

The financial statements and their purpose are summarised as follows:

- Fund Account – The Fund Account sets out the Pension Fund's income and expenditure for the year to 31 March 2020. The first section sets out the income received in contributions from employers and employees, and the expenditure on pension benefit payments. In recent years the annual income from contributions has been lower than the annual expenditure on benefit payments, with the gap bridged by investment income. However, in 2019/20 contributions income was higher as a result of a significant payment from one employer to pay off their pension deficit. The second section of the Fund Account shows the income received from the Fund's investments and the cost of managing those investments. Investment income from listed equities and bonds is retained by the external investment managers for re-investment, but income from property, infrastructure and private debt is returned as cash and can be used to offset any shortfall between contributions and benefit payments. The Fund Account also shows that there has been a decrease in the capital values of the Fund's investment assets of £395 million over the last year.

- Net Asset Statement – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled investments include pooled Equity, Fixed Interest, Property, Infrastructure and Private Debt Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in a later section of my report.

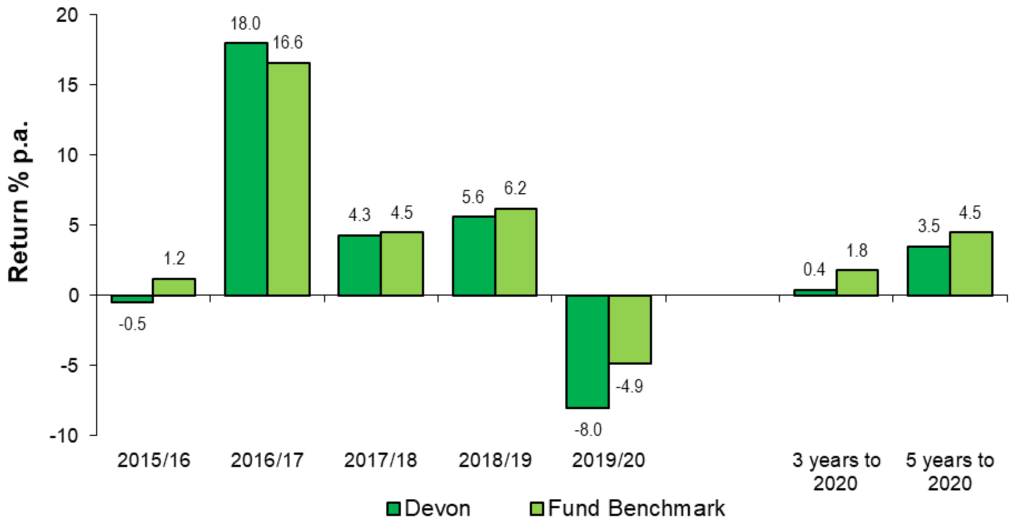
Investment Performance

As indicated above, the asset value of the Fund at the end of the 2019/20 financial year was £4.011 billion. This represents an investment return of -8.0% net of fees, compared with the Fund's internally set strategic benchmark target of -4.9%. As set out above, the impact of the coronavirus on world markets has been severe, resulting in significant negative returns over the last quarter.

The Fund's strategic benchmark is set as an average of the benchmarks for each of the investment portfolios, weighted according to the Fund's strategic asset allocation targets. The diversified growth funds have a cash plus target, meaning that their benchmark will be to achieve a positive return against cash. Given the market circumstances of the quarter to March, achieving a positive return was an unrealistic expectation, and their performance also did not hold up as well as would have been expected. The negative returns they experienced were the major reason that the Fund underperformed its strategic benchmark. The specialist equity funds also significantly underperformed, with their more concentrated holdings including a couple of companies severely impacted by the crisis. The cost of transitioning assets to Brunel will also have had a small impact on relative performance.

Pension fund investment management has to consider the long term, and the Investment and Pension Fund Committee's principal aim for the Fund is therefore to maintain high performance over the longer term. However, performance over the last quarter has had a significant impact on the long-term investment returns. The following chart presents the investment returns achieved by the Devon Fund compared to the Fund's benchmark over each of the last five years, plus the total annualised return over the last three years and the last five years. Performance Figures are shown net of fees.

Investment Performance Summary



A more detailed analysis of the Fund's investment returns over the last year, 3 years and 5 years, broken down by asset class, is provided in the following table.

Investment Performance by Asset Class

One Year Performance	Opening Value		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Brunel Asset Pool Managed Investments							
Passive Equities	1,815,034	42.3	1,505,380	37.5	-12.0	-12.0	-12.0
Active Global High Alpha Equities[1]	0	0.0	241,385	6.0	-10.5	-10.5	-14.4
Active Emerging Market Equities[2]	0	0.0	179,009	4.5	-17.4	-17.4	-15.2
Active Low Volatility Equities	101,727	2.4	186,409	4.6	-8.1	-8.1	-6.2
UK Property3	0	0.0	328,388	8.2	-0.7	-0.7	-1.0
International Property3	0	0.0	51,321	1.3	+0.8	+0.8	-1.3
Infrastructure	5,883	0.2	25,117	0.6	+12.6	+9.2	+1.5
Non-Asset Pool Managed Investments							
Active Global Equities[1]	249,758	5.8	0	0.0	+4.7	+4.5	+7.2
Active Specialist Equity Funds	208,897	4.9	143,940	3.6	-23.9	-23.9	-6.0
Active Emerging Market Equities[2]	190,600	4.4	0	0.0	+1.5	+1.2	+0.2
Global Bonds	231,282	5.4	279,109	7.0	+7.5	+7.2	+7.3
Multi-Sector Credit	226,437	5.3	246,737	6.2	-6.8	-7.2	-9.7
Property[3]	403,626	9.4	0	0.0	+1.5	+1.4	+1.0
Infrastructure	150,532	3.5	146,207	3.6	+6.0	+5.5	+5.7
Private Debt	70,271	1.6	107,367	2.7	+11.0	+10.3	+5.7
Diversified Growth Funds	606,931	14.1	526,061	13.1	-10.5	-10.9	+4.6
Cash	30,783	0.7	44,685	1.1	+2.3	+2.2	+0.5

Three Year Performance[4]	Value 1 April 2017		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Passive Equities	1,713,117	43.7	1,505,380	37.5	-0.5	-0.5	-0.6
Active Global Equities	432,567	11.1	385,325	9.6	-0.3	-0.5	+2.4
Active Low Volatility Equities	0	0.0	186,409	4.6	-	-	-
Active Emerging Market Equities	181,795	4.7	179,009	4.5	-3.4	-3.8	-1.1
Global Bonds	270,960	6.9	279,109	7.0	+3.5	+3.4	+3.5
Multi-Sector Credit	164,835	4.2	246,737	6.2	-0.3	-0.5	-1.5
Property	363,040	9.3	379,709	9.5	+6.5	+6.4	+4.9
Infrastructure	157,897	4.0	171,324	4.3	+5.7	+5.5	+5.5
Private Debt	0	0.0	107,367	2.7	-	-	-
Diversified Growth Funds	581,203	14.8	526,061	13.1	-1.8	-2.1	+4.4
Cash	52,366	1.3	44,685	1.1	+1.5	+1.4	+0.4

Five Year Performance[4]	Value 1 April 2015		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Passive Equities	1,477,340	43.9	1,505,380	37.5	+3.6	+3.6	+3.6
Active Global Equities	373,945	11.1	385,325	9.6	+4.3	+4.3	+7.3
Active Low Volatility Equities	0	0.0	186,409	4.6	-	-	-
Active Emerging Market Equities	146,004	4.3	179,009	4.5	+2.3	+2.1	+3.4
Global Bonds	335,934	10.0	279,109	7.0	+4.3	+4.2	+4.2
Multi-Sector Credit	59,820	1.8	246,737	6.2	+1.6	+1.5	+1.4
Property	345,548	10.3	379,709	9.5	+6.7	+6.7	+5.7
Infrastructure	93,391	2.8	171,324	4.3	+8.0	+7.9	+3.4
Private Debt	0	0.0	107,367	2.7	-	-	-
Diversified Growth Funds	496,035	14.8	526,061	13.1	+0.4	+0.3	+4.4
Cash	34,335	1.0	44,685	1.1	+1.1	+1.1	+0.4

Notes:

1) Global Equities transitioned from Aberdeen Standard Investments to Brunel in mid-November 2019. Brunel performance is shown from the transition date and non-asset pool managed investments shows the performance up to the transition date.
2) Emerging Markets transitioned from Aberdeen Standard Investments to Brunel at the end of September 2019. Brunel performance is shown from the transition date and non-asset pool managed investments shows the performance up to the transition date.
3) Property transitioned from La Salle Investment Management to Brunel at the end of September 2019. Brunel performance is shown from the transition date and non-asset pool managed investments shows the performance up to the transition date.
4) Three year and five year performance numbers combine periods of management by the pool and outside the pool where relevant, given that none of the assets have been managed by the pool for more than two years.

Fund Solvency

The Fund is required to have an actuarial valuation conducted every three years. The most recent triennial valuation, as at 31 March 2019, has been carried out by the Fund Actuary, Barnett Waddingham over the last year. The valuation determined that the Devon Pension Fund's funding level had improved from 84% to 91%, compared with the previous 2016 valuation.

The results of the 2019 actuarial valuation have been prepared in accordance with the current legislative arrangements for the Fund, taking into account revised financial assumption and longevity projections, as set out in the Funding Strategy Statement. The Fund's assets were valued at £4,273m against future pension liabilities assessed at £4,672m, giving a deficit for this valuation of £399m. The average deficit recovery period for the Fund as a whole has been set at 19 years, which is a reduction from the 22 years set at the previous valuation. The improvement in the funding level and reduction of the deficit recovery period showed good progress towards the long term objective of 100% solvency.

However, the Fund Actuary has reassessed the position as at 31 March 2020, using the approach of rolling forward the data from the 2019 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 31 March 2020 without completing a full valuation, the results will be indicative of the underlying position. As a result of the impact of coronavirus Covid-19 on world markets, and the resulting fall in the value of the Fund's assets, the Actuary has estimated that on an unsmoothed basis, considering market conditions as at 31 March 2020 only, the funding level will have deteriorated to around 86%.

Asset Allocation

The Investment and Pension Fund Committee is charged with the responsibility for governance and stewardship of the Fund and making decisions about strategic asset allocation policy.

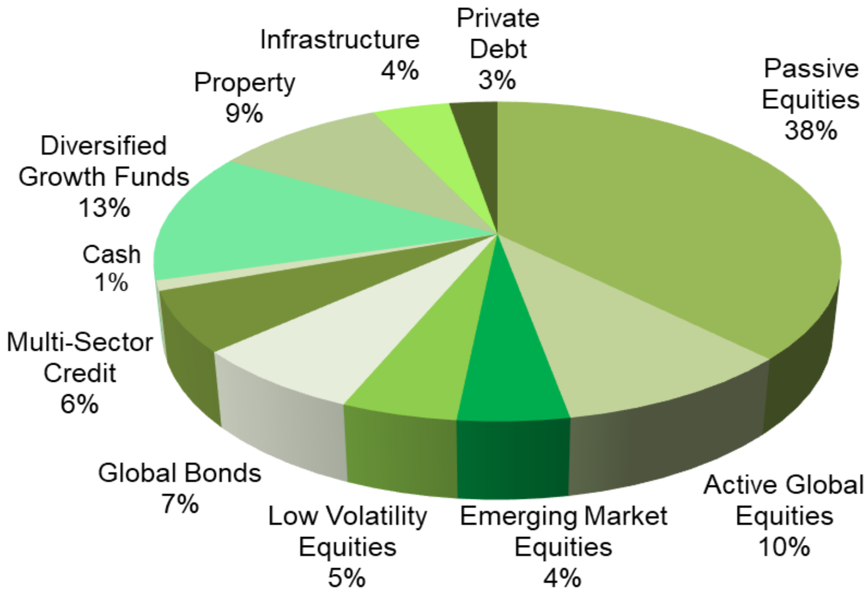
Following a review undertaken by Mercer investment consultants, the Committee agreed a revised Investment Strategy Statement in February 2019. The revised strategy objectives were broadly consistent with the previous review undertaken in 2016/17, which set out a direction of travel towards a long term target to be achieved by a phased implementation over a five year period, which would also tie in with the launch of new investment portfolios by the Brunel Pension Partnership.

In line with that strategy, the Committee agreed some small changes to asset allocation targets during 2019/20. The Fund has committed a total of £175 million to Brunel's infrastructure portfolio with the objective of increasing the infrastructure allocation to 6% of the Fund. However, as at 31 March only £23 million of that commitment had been drawn down, and the investment therefore remained below the target allocation. It is the intention to increase the allocation to private markets further over the next two years and significant further commitments have been made in 2020/21, across infrastructure, private equity and private debt.

A further investment of £110 million into Brunel's low volatility equities portfolio was made in September, to bring the target allocation up to 5%. During 2020/21, it is planned to make a further allocation to bring the overall strategic allocation up to around 7%. This is in line with the policy set out in the Investment Strategy Statement, with the aim of reducing risk without impacting the Fund's investment return potential

The Fund's actual asset allocation as at 31 March 2020 is shown in the following chart:

Actual Asset Allocation as at 31 March 2020



A comparison of the actual allocation as at 31 March 2020 with the Fund's target allocation for 2019/20 is shown in the following table:

Actual Asset Allocation Compared to Target

	as at 31 March 2019		as at 31 March 2020		
	Target allocation %	Actual allocation %	Target allocation %	Actual allocation %	Variation from Target %
Global Bonds	6.0	5.4	6.0	7.0	
Multi-Sector Credit	6.0	5.3	6.0	6.2	
Cash	1.0	0.7	1.0	1.0	
Total Fixed Interest	**13.0**	**11.4**	**13.0**	**14.2**	**+1.2**
Passive Equities	40.0	42.3	38.0	37.5	
Active Global Equities	10.0	10.7	10.0	9.6	
Active Emerging Markets Equities	5.0	4.4	5.0	4.5	
Active Low Volatility Equities	3.0	2.4	5.0	4.6	
Total Equities	**58.0**	**59.8**	**58.0**	**56.2**	**-1.8**
Diversified Growth Funds	13.0	14.1	11.0	13.1	
Property	10.0	9.4	10.0	9.5	
Infrastructure	4.0	3.7	6.0	4.3	
Private Debt	2.0	1.6	2.0	2.7	
Total Alternatives/Other	**29.0**	**28.8**	**29.0**	**29.6**	**+0.6**

Conclusion

As a result of the coronavirus pandemic, the Fund faces a period of uncertainty around how the global economy will recover. However, the Fund is a long-term investor and that will provide some mitigation to the immediate impact. We will need to ensure that the Fund strategy is positioned to benefit from any recovery while providing diversification to manage the short and medium-term risks. The impact of the pandemic has understandably overshadowed the good progress that had been made by the fund in moving from an 84% funding level to a 91% funding level at the March 2019 Valuation. This was a pleasing result for the Fund, but recent events have been a significant setback to that progress.

During the year we transitioned a further 20% of our assets across to the Brunel Pension Partnership, mainly comprising the Fund's allocations to passive equities. We expect that the majority of the Fund's remaining investments will transition during 2020/21, although delays can be expected as a result of the coronavirus crisis. The Committee will continue to focus on its strategic asset allocation to ensure the Fund can achieve its funding targets and continue to meet its liabilities to pay pensions over the medium to longer term.

The Fund remains committed to ensuring that it provides an excellent service to pension fund members and value for money for both pension fund members and local taxpayers.

Mary Davis

County Treasurer

26th November 2020

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the County Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Responsibilities of the County Treasurer

The County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the County Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice;

The County Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2020 has been prepared in accordance with the Accounts and Audit Regulations 2015 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Mary Davis

County Treasurer

26th November 2020

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 26th November 2020.

Chairman of the Audit Committee

26th November 2020

Summary of the Scheme and its Management

The Local Government Pension Scheme (LGPS) is one of the oldest public sector schemes in operation, having been established as a national scheme in 1922. The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In the county area of Devon, Devon County Council is the administering authority of the Fund. Each administering authority is responsible for its own Fund, into which all contributions are paid. Rules by which the administering authorities must operate - the LGPS Regulations - are determined by the Government after consultation with representatives for both employees (trade unions) and employers (Local Government Association, Local Government Pensions Committee).

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Each LGPS administering authority pays its benefits from a dedicated pension fund. Both the scheme member and their employer pay into this fund in order to provide retirement benefits for the member once they reach retirement age (or earlier if the situation demands). Before this time arrives however, the contributions paid into the scheme are invested in a variety of suitable investments. By investing the contributions in this way the fund can build up enough assets to cover any payments it may be expected to make regarding its scheme members' retirement benefits. Please visit the website http://www.peninsulapensions.org.uk/ for further information.

As at 31st March 2020, the net assets of the Devon Pension Fund were valued at £4,011 millions. The fund currently has 39,171 actively contributing members, employed by 214 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Different rules apply in relation to membership of the fund for the different categories of employer, as set out in the following table:

Scheduled Body - An employer explicitly defined in the Regulations. As listed on page 174.	Admitted Body - As listed on page 175.
No employing body discretion on membership.	Employing body discretion on membership
No employer discretion on who can join.	Employer discretion on who can join
Restricted to geographical area of fund.	May operate outside geographical area of fund, and potentially participate in more than one fund (separate admission agreement required).
No parent guarantee or bond.	May require an indemnity or bond

Pensions are paid to 35,950 pensioners (and/or dependants) every month. There are currently 51,725 members with rights to deferred benefits, frozen memberships pending refunds and those undecided pending resolution.

Further contributions are made by Fund employers, which are set based on triennial actuarial funding valuations. The contributions for 2019/20 were set by the valuation as at 31 March 2016. Employer contributions comprise a primary rate, which represents the employers' share of the cost of future benefits, and a secondary rate to meet any shortfall on past service liabilities. Currently, employer future service rates range from 10.6% to 28.5% of pensionable pay. The deficit contribution is expressed as a cash sum, and ranges from £0 to £14.6 millions.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. The benefits payable are summarised in the following table:

	Service before 1 April 2008	**Service 1 April 2008 to 31 March 2014**	**Service from 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 x **career average** salary.
Lump sum	Each year worked is worth 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a oneoff tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QD	

Investment and Pension Fund Committee (at 31 March 2020)

Representing Devon County Council	Councillor Ray Bloxham	(Chairman)
	Councillor Yvonne Atkinson	
	Councillor Alan Connett	
	Councillor Richard Edgell	
	Councillor Richard Hosking	
	Councillor Andrew Saywell	
Representing Devon Unitary & District Councils	Councillor Judy Pearce	(Devon District Councils)
	Councillor Lorraine Parker Delaz Ajete	(Plymouth)
	Councillor James O'Dwyer	(Torbay)
Representing Other Employers	Donna Healy	(Dartmoor National Park Authority)
Observers		
Representing the Contributors	Stephanie Teague	
	Jo Rimron	
Representing the Beneficiaries	Roberto Franceschini	
Adviser	Anthony Fletcher	(MJ Hudson Allenbridge)

Devon Pension Board (at 31 March 2020)

Representing Fund Employers	Councillor Colin Slade	(Devon County Council) (Chairman)
	Councillor Sara Randall Johnson	(Devon County Council)
	Carl Hearn	(Tavistock Town Council)
	Carrie Piper	(South Devon College)
Representing Fund Members	Julie Bailey	
	Andrew Bowman	
	Paul Phillips	
	Colin Shipp	
Independent Member	William Nicholls	
County Council Officers	Phil Norrey	Chief Executive
	Mary Davis	County Treasurer
	Angie Sinclair	Deputy County Treasurer
	Mark Gayler	Assistant County Treasurer
	Martin Oram	Assistant County Treasurer
	Daniel Harris	Head of Peninsula Pensions

Asset Pool	Brunel Pension Partnership 101 Victoria Street Bristol. BS1 6PU
Other Investment Managers	Devon County Council Investment Team Baillie Gifford and Co. Baring Asset Management Ltd Lazard Asset Management LLC Wellington Management International Ltd
Fund Actuary	Barnett Waddingham LLP 163 West George Street Glasgow. G2 2JJ
Fund Custodian	State Street Bank and Trust Company Quartermile 3 10 Nightingale Way Edinburgh. EH3 9EG
Bankers to the Fund	Barclays Bank plc 3 Bedford St Exeter. EX1 1LX
AVC Providers	Prudential Assurance Company Ltd Lancing BN15 8GB
External Auditors	Grant Thornton UK LLP 2 Glass Wharf Bristol. BS2 0EL

For More Information

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at:

www.peninsulapensions.org.uk

Requests for information about the accounts or investments should be made in writing to Mark Gayler, Assistant County Treasurer - Investments and Treasury Management, Devon County Council, Room G99, County Hall, Exeter, EX2 4QD.

Financial Statements

Background

The Devon Pension Fund provides defined pension benefits to members earned as employees. As well as the County Council, the Fund also extends to cover employees of unitary, district and parish councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority, and employees of academy schools and a number of other admitted member bodies.

The accounts of the Fund are set out in line with the IFRS Based CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The accounts reflect the assets that are available to the Fund, and the current liabilities. Future contributions are matched to future liabilities through an actuarial valuation.

All employers' contribution rates are decided by the Fund's Actuary every three years after an actuarial valuation of the fund. The statutory triennial actuarial valuation of the fund was undertaken in 2019 and was signed by the Actuary on 31 March 2020.

The Accounts are set out in the following order:

- Fund Account - discloses the income to and expenditure from the Fund relating to scheme members and to the investment and administration of the Fund. The account also reconciles the Fund's net assets at the start of the year to the net assets at the year end.
- Net Asset Statement - discloses the type and value of all net assets at the year end.
- Notes to the Accounts - provides supporting details and analysis of the figures in the Fund Account and Net Asset Statement.

Fund Account

2018/19 £'000		Notes	2019/20 £'000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(137,431)	Employers	5	(207,397)
(38,765)	Members	5	(40,758)
	Transfers in from other pension funds:		
(6,134)	Individual Transfers		(17,279)
(182,330)			(265,434)
	Benefits		
149,688	Pensions	6	157,626
26,759	Commutation and lump sum retirement benefits	6	27,170
4,191	Lump sum death benefits	6	3,674
	Payments to and on account of leavers		
705	Refunds to members leaving service		505
0	Guaranteed Minimum Pension refund from HMRC		(519)
30	Payments for members joining state scheme		(8)
9,012	Individual Transfers		12,778
190,385			201,226
8,055	**Net (additions)/withdrawals from dealings with members**		**(64,208)**
17,999	Management expenses	8	19,732
26,054	**Net (additions)/withdrawals including fund management expenses**		**(44,476)**
	Returns on investments		
	Investment Income:		
	Income from Bonds		
(330)	U.K. Public Sector Bonds		(399)
(4,342)	Overseas Government Bonds		(4,941)
(169)	UK Corporate Bonds		(11)
(2,877)	Overseas Corporate Bonds		(2,477)
	Income from Equities (Listed)		
(1,342)	U.K.		(725)
(7,495)	Overseas		(5,212)
(19,605)	Pooled Investments - Unit Trusts and Other Managed Funds		(29,379)
(13,609)	Pooled Property Investments		(15,957)
(707)	Interest on Cash and Short Term Deposits		(690)
	Taxes on income:		
19	Withholding Tax - Fixed Interest securities		4
520	Withholding Tax - Equities		436
	Profit and losses on disposal of investments and changes in market value of investments:		
(970,168)	Realised (profit)/loss		(261,840)
778,201	Unrealised (profit)/loss		656,834
(241,904)	**Net Returns on Investments**		**335,643**
(215,850)	Net (increase)/decrease in the net assets available for benefits during the year		291,167
(4,086,432)	Opening Net Assets of the Scheme		(4,302,282)
(4,302,282)	**Net Assets of the Scheme**		**(4,011,115)**

Net Asset Statement

31 March 2019 £'000		Notes	31 March 2020 £'000
	INVESTMENTS AT MARKET VALUE	13 & 14	
395	Long Term Investments		427
	Investment Assets		
	Bonds		
11,770	U.K. Public Sector Bonds		13,721
135,440	Overseas Government Bonds		153,358
0	UK Corporate Bonds		1,326
75,489	Overseas Corporate Bonds		105,037
	Equities (Listed)		
39,901	U.K.		0
348,734	Overseas		0
3,224,966	Pooled Investments - Unit Trusts and Other Managed Funds	16	3,307,127
378,934	Pooled Property Investments	16	372,962
	Derivative Assets	19	
6,614	Forward Currency Contracts		7,199
	Cash deposits		
5,447	Foreign Currency		8,511
22,581	Short Term Deposits		27,243
37,875	Cash & Bank Deposits		12,043
4,792	Investment income due		3,759
879	Amounts receivable for sales		0
	Investment Liabilities		
	Derivatives	19	
(1,468)	Forward Currency Contracts		(10,300)
(193)	Amounts payable for purchases		(1,136)
4,292,156	**Total Net Investments**		4,001,277
	Non Current Assets and Liabilities		
1,839	Non Current Assets		1,504
(3,008)	Non Current Liabilities		(1,504)
	Current Assets and Liabilities	20	
18,953	Current Assets		33,080
(7,658)	Current Liabilities		(23,242)
4,302,282	**Net assets of the fund available to fund benefits at 31 March**		**4,011,115**

Notes to the Net Asset Statement

The financial statements summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund’s accounting year. These obligations are summarised in Note 21 on page 30.

Notes to the Accounts

1. Accounting Policies

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The Devon Pension Scheme is a defined benefit scheme which provides pensions for County, Unitary and District Council staff not in other schemes, together with staff at certain other admitted bodies.

Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils and other employers (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on pages 174 to 175.

Fund account – revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate prescribed by the LGPS regulations for members and at the percentage rate recommended by the fund actuary for employers in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

- Interest income is recognised in the fund account as it accrues
- Dividend income is recognised on the date the shares are quoted ex-dividend.

- Distributions from pooled funds are recognised at the date of issue.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance on Accounting for Local Government Pension Scheme Management expenses (2016). These are shown under note 8.

Management Expenses recharged from Devon County Council to the Pension Fund are accounted for in accordance with Devon County Council's accounting policies. In particular the full cost of employees is charged to the accounts for the period within which the employees worked.

Administrative expenses; oversight and governance costs; and investment management expenses are charged directly to the fund.

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments. The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Unquoted investments. The fair value of investments for which market quotations are not readily available is determined as follows:
    - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Investments in private equity funds and unquoted limited partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- Limited partnerships. Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the fund, net of applicable withholding tax.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Hedge Accounts

Where the fund has assets denominated in currencies other than sterling, the value of those assets will be affected by movements in the exchange rate. The fund may use forward currency contracts to hedge exchange rate risks in relation to specific assets held by the fund. The fair value of the forward currency contracts will be calculated as set out under derivatives. Where material gains and losses on forward currency contracts used to hedge against the exchange rate risks associated with specific assets will be set out in the notes to the accounts.

Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 21).

Stock lending

The Fund has a programme of stock lending operated by its custodian. The programme lends directly held global equities and bonds to approved borrowers against a collateral of cash or fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in the net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

The custodian is authorised to invest and reinvest all or substantially all cash collateral. It is not the policy of custodian or the Devon Pension Fund to sell or repledge collateral held in the form of securities. In the event of default by the borrower, the custodian will liquidate non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidity issues), the custodian would arrange an acceptable solution with the Devon Pension Fund.

Events after the Reporting Date

Events after the reporting date have been considered up to the time the Pension Fund Accounts were authorised for issue on 26th November 2020.

Where an event after the reporting date occurs which provides evidence of conditions that existed at the reporting date the Statement of Accounts is adjusted. Where an event occurs after the reporting date which is indicative of conditions that have arisen after the reporting date, adjustments are not made.

Financial Instruments

The Financial Instruments of the Pension Fund are classified into the following categories:

Financial assets and liabilities at fair value through profit or loss:

- The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:
  - Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
  - Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
  - A derivative.
- Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.

Financial Assets measured at Amortised Cost:

- These assets are all short term except for capital payment due from the Devon & Cornwall Magistrates Courts Services.

Financial liabilities:

- The liabilities of the Pension Fund consist of creditors and derivative liabilities. Derivative liabilities are classified as financial liabilities at fair value through profit or loss and carried at fair value.

Value Added Tax (VAT)

Income and expenditure excludes any amounts relating to VAT except to the extent that it is irrecoverable.

2. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1 the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that the Pension Fund will continue in operational existence for the foreseeable future.

Pension fund liability. The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 21. These actuarial revaluations are used to set future contribution rates and underpin the fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 26 Additional Financial Risk Management Disclosures details the Fund’s approach to managing risk. None of the Authority’s investments are impaired.

- The Fund’s significant contracts have been reviewed and no embedded finance leases or service concessions found.

3. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Market Value of investments	The Fund's investments are revalued on a monthly basis. Investments are valued using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs. While market values are not estimates, the method of valuation does mean that future values may fluctuate (see note 4).	For every 1% increase in Market Value the value of the Fund will increase by £40.013 millions with a decrease having the opposite effect.
Unlisted assets, specifically pooled property investments (valued at £372.962m), and level 3 private infrastructure and debt funds (valued at £215.025m)	The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Consequently, less certainty – and a higher degree of caution – should be attached to valuations than would normally be the case.	If valuations of the underlying property and infrastructure and private debt assets turn out to be lower than expected, then the value of the Fund's investments will have been overstated. A 10% fall in the valuations included in the accounts for these portfolios would result in a reduction of £58.799m in total Fund assets.
Actuarial present value of promised retirement benefits (Note 21)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance: • a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £140.209 millions • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £12.565 millions • a one-year increase in assumed life expectancy would increase the liability by approximately £254.733 millions

4. Estimates

The Devon Pension Fund is a limited partner in a number of partnerships. Within the partnership the fund managers provide the Pension Fund with quarterly financial statements indicating the value of these investments. These statements are audited annually. The subjectivity of the inputs used in making an assessment of fair value is explained in Note 25. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

Where actual costs were not known or could not be calculated, year-end debtors and creditors are based on the last received payment or invoice.

5. Contributions receivable

Contributions income for schedule bodies in 2019/20 was higher than the previous year, this was due to a significant payment from one employer to pay off their pension deficit.

By authority

2018/19 £'000		2019/20 £'000
(48,375)	Administering Authority	(50,578)
(114,249)	Scheduled bodies	(185,928)
(12,464)	Admitted bodies	(10,413)
(1,108)	Resolution body	(1,236)
(176,196)		**(248,155)**

By type

2018/19 £'000		2019/20 £'000
(38,765)	Employees' normal contributions	(40,758)
(98,379)	Employers' normal contributions	(102,736)
(39,052)	Employers' deficit recovery contributions	(104,661)
(176,196)		**(248,155)**

6. Benefits Payable

By authority

2018/19 £'000		2019/20 £'000
64,038	Administering Authority	65,810
107,186	Scheduled bodies	112,876
563	Admitted bodies	700
3,884	Community admission body	4,126
4,398	Transferee admission body	4,464
569	Resolution body	494
180,638		**188,470**

7. Contribution Rates

Scheme members (employees) paid variable percentages of their total pensionable pay into the fund as set out below.

Whole Time Pay Rate 2018/19	**Member contribution rate**	**Whole Time Pay Rate 2019/20**	**Member contribution rate**
£0 to £14,100	5.5%	£0 to £14,400	5.5%
£14,101 to £22,000	5.8%	£14,401 to £22,500	5.8%
£22,001 to £35,700	6.5%	£22,501 to £36,500	6.5%
£35,701 to £45,200	6.8%	£36,501 to £46,200	6.8%
£45,201 to £63,100	8.5%	£46,201 to £64,600	8.5%
£63,101 to £89,400	9.9%	£64,601 to £91,500	9.9%
£89,401 to £105,200	10.5%	£91,501 to £107,700	10.5%
£105,201 to £157,800	11.4%	£107,701 to £161,500	11.4%
More than £157,801	12.5%	More than £161,501	12.5%

8. Management Expenses

2018/19		**2019/20**
£'000		**£'000**
2,084	**Administrative costs**	2,329
2,084		**2,329**
	Investment management expenses	
12,106	Management fees (a)	13,188
1,892	Performance fees (a)	2,145
78	Custody fees	59
1,126	Transaction costs (b)	1,153
(36)	Stock Lending Income & Commission Recapture	(36)
44	Other Investment management expenses	(17)
15,210		**16,492**
	Oversight and governance costs	
22	Audit Fees (c)	24
683	Other Oversight and governance costs	887
705		**911**
17,999		**19,732**

a) The majority of current managers' fees are on a fixed fee basis, calculated using the market value of the portfolio. The cost of external fund management varies with the value of investments under management. A small proportion of the current managers' fees is based on performance and will be paid where the manager outperforms an agreed target level of return.

The fund's investment in pooled property funds is via a fund of funds arrangement managed by the Brunel Pension Partnership (previously La Salle). In addition, the diversified growth funds managed by Baillie Gifford and Barings will also invest in underlying funds. The Devon Pension Fund does not have day to day involvement over the investment decisions made by La Salle, Baillie Gifford or Barings, and therefore the investment costs incurred by the underlying funds are not included in the management costs disclosed.

b) In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

c) Audit fees include an amount of £24,105 (£22,024 in 2018/19) in relation to Grant Thornton UK LLP, the auditors appointed by the Public Sector Audit Appointments Ltd for external audit services.

9. Agency Services

The Pension Fund pays discretionary awards to the former employees of other bodies. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed in the following table.

31 March 2019		31 March 2020
£'000	**Payments on behalf of:**	**£'000**
7,755	Devon County Council	7,501
903	Plymouth City Council	936
563	Torbay Council	529
356	Teignbridge District Council	353
292	University Of Plymouth	306
228	Exeter City Council	238
222	North Devon District Council	235
183	South Hams District Council	187
137	Dorset, Devon and Cornwall Rehabilitation Service	166
93	Torridge District Council	83
310	Payments of less than £100,000 on behalf of other bodies	357
11,042		**10,891**

10. Related Party Transactions

The Devon Pension Fund is administered by Devon County Council. During the reporting period, the council incurred costs of £3.027 millions (2018/19: £2.841 millions) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. Devon County Council and its employees contributed £50.546 millions to the fund in 2019/20 (2018/19: £48.354 millions). In 2019/20 £4.360 millions was owed to the fund (2018/19: £4.155 millions) and £2.819 millions was due from the fund (2018/19: £2.638 millions).

The Investment and Pension Fund Committee is the decision-making body for the fund and Devon County Council nominates 6 of the 10 voting committee members.

Each member of the pension fund committee is required to declare their interests at each meeting.

In accordance with IAS 24 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:

No members of the Investment & Pension Fund Committee receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Pension Fund has transactions with the following organisation:

Brunel Pension Partnership Ltd (Company number 10429110)

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 administering authorities, including Devon County Council own 10% of BPP Ltd. Pension Fund transactions with BPP Ltd are as follows:

	2018/19	2019/20
	£'000	£'000
Income	0	0
Expenditure	749	1192
Debtors	272	317
Creditors	0	0

11. Key Management personnel

The Key Management Personnel of the Fund are those persons having the authority and responsibility for planning, directing and controlling the activities of the fund, including the oversight of these activities. The Key Management Personnel of the Fund are the County Council Treasurer, the Deputy County Treasurer, the Assistant County Treasurers and the Head of Pension Services. A percentage of the Key Management Personnel total remuneration payable is set out below:

		Salary, Fees and Allowance	Expenses Allowances	Pension contributions	**Total**
		£'000	£'000	£'000	**£'000**
Remuneration	2019/20	212	6	42	**260**
	2018/19	210		40	**250**

12. Stock Lending

The Devon pension Fund permits holdings in its segregated portfolios to be lent out to market participants. State Street Bank and Trust Company has acted as custodian for the Fund since 1 April 2018 and are authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2020 is shown below.

31 March 2019	**% of Fund**		**31 March 2020**	**% of Fund**
£'000	**%**		**£'000**	**%**
28,978	0.7	**Stock on Loan**	**8,462**	0.2
		Collateral		
0		Cash	0	
30,828		Securities	9,305	
30,828			**9,305**	

13. Investment Management Arrangements

The Pension Fund is currently managed by the Brunel Pension Partnership Ltd. and four other external managers and the in-house Investment Team in the following proportions:

31 March 2019 £'000	%	Manager	Mandate	31 March 2020 £'000	%
		Investments managed by the Brunel Pension Partnership Asset Pool:			
1,815,034	42.3	Brunel Pension Partnership Ltd	Passive Equities	1,505,380	37.6
0	0.0	Brunel Pension Partnership Ltd	Global High Alpha Equities	241,385	6.0
0	0.0	Brunel Pension Partnership Ltd	Emerging Market Equities	179,009	4.5
101,727	2.4	Brunel Pension Partnership Ltd	Low Volatility Equities	186,409	4.7
0	0.0	Brunel Pension Partnership Ltd	Property	379,709	9.5
5,883	0.1	Brunel Pension Partnership Ltd	Infrastructure	25,117	0.6
1,922,644	**44.8**			**2,517,009**	**62.9**
		Investments managed outside the Brunel Pension Partnership Asset			
249,758	5.8	Aberdeen Asset Managers Ltd	Global Equity	0	0.0
190,600	4.4	Aberdeen Asset Managers Ltd	Global Emerging	0	0.0
231,282	5.4	Lazard Asset Management LLC	Global Fixed Interest	279,109	7.0
226,437	5.3	Wellington Management International Ltd	Global Fixed Interest	246,737	6.2
308,767	7.2	Baillie Gifford & Co	Diversified Growth Fund	274,513	6.8
298,164	7.0	Baring Asset Management Ltd	Diversified Growth Fund	251,548	6.3
403,626	9.4	La Salle Investment Management	Property	0	0.0
460,878	10.7	DCC Investment Team	Specialist Funds	432,361	10.8
2,369,512	**55.2**			**1,484,268**	**37.1**
4,292,156	**100.0**			**4,001,277**	**100.0**

14. Investment Movements and Transactions

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	Value at 31 March 2019	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets						
Bonds						
U.K. Public Sector Bonds	11,770	0	637	0	1,314	13,721
Overseas Government Bonds	135,440	0	112,318	(100,006)	5,606	153,358
UK Corporate Bonds	0	0	1,253	0	73	1,326
Overseas Corporate Bonds	75,489	0	52,959	(25,570)	2,159	105,037
Equities (Listed)						
U.K.	39,901	0	7,697	(47,875)	277	0
Overseas	348,734	0	154,486	(522,276)	19,056	0
Pooled investments	3,224,966	0	2,216,307	(1,720,343)	(413,803)	3,307,127
Pooled property investments	378,934	0	424,811	(422,065)	(8,718)	372,962
Derivative contracts						
Forward currency contracts	5,146	0	26,535	(34,715)	(68)	(3,102)
Foreign Currency	5,447	0	4,231	(244)	(922)	8,512
Amount receivable for sales of investments	879		0	(879)	0	0
Amounts payable for purchases of investments	(193)		(943)		0	(1,136)
	4,226,513	**0**	**3,000,291**	**(2,873,973)**	**(395,026)**	**3,957,805**
Other Investment Balances						
Short Term Deposits	22,581					27,243
Cash & Bank Deposits	37,875					12,043
Long Term Investments	395				32	427
Investment income due	4,792					3,759
Net investment assets	**4,292,156**				**(394,994)**	**4,001,277**

	Value at 31 March 2018	Reclassification *	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets						
Bonds						
U.K. Public Sector Bonds	2,362	4,146	4,759	0	503	11,770
Overseas Government Bonds	154,228	(23,816)	63,504	(64,283)	5,807	135,440
UK Corporate Bonds	1,853	928	0	(2,725)	(56)	0
Overseas Corporate Bonds	52,918	18,743	29,880	(30,077)	4,025	75,489
Equities (Listed)						
U.K.	39,970	(6,120)	209,136	(208,874)	5,789	39,901
Overseas	326,205	2,125	99,485	(90,263)	11,182	348,734
Pooled investments	3,027,451	0	3,663,218	(3,623,617)	157,914	3,224,966
Pooled property investments	375,292	3,994	16,917	(29,077)	11,808	378,934
Derivative contracts						
Forward currency contracts	(2,170)	0	75,031	(61,584)	(6,131)	5,146
Foreign Currency	11,990	0	2,211	(10,315)	1,561	5,447
Amount receivable for sales of investments	0	0	0	869	10	879
Amounts payable for purchases of investments	0	0	(193)	0	0	(193)
	3,990,099	**0**	**4,163,948**	**(4,119,946)**	**192,412**	**4,226,513**
Other Investment Balances						
Short Term Deposits	49,819					22,581
Cash & Bank Deposits	25,527					37,875
Long Term Investments	840				(445)	395
Investment income due	6,197					4,792
Net investment assets	**4,072,482**				**191,967**	**4,292,156**

* Several assets were reclassified following the change of Fund Custodian from Northern Trust to State Street and reflect different interpretations of the asset classification by the two custodians. For example, bonds issued by development banks, which are quasi-governmental organisations, were categorised as government bonds by Northern Trust, but as corporate bonds by State Street. They can be seen as both "government" and "corporate" so either interpretation can be seen as valid. Another example is the holding of equity shares in BHP Billiton, a company which is a dual-listed in the UK and Australia. Northern Trust categorised the holding as UK Equities, State Street have categorised the holding as Overseas Equities.

15. Fund Investments over 5% of total fund value

	Value at 31 March 2020	% of Total Fund Value
	£'000	%
LGIM World Developed Equity Index (Currency Hedged) Fund	641,717	16.0%
LGIM UK Equity Index Fund	506,394	12.6%
LGIM Scientific Beta Multi-Factor Developed Equity Index Fund	357,238	8.9%
Baillie Gifford Diversified Growth Fund	274,513	6.9%
Barings Dynamic Asset Allocation Fund	251,548	6.3%
Wellington Multi Sector Credit Fund	246,728	6.2%
Brunel Active Global High Alpha Equity Fund	241,385	6.0%

	Value at 31 March 2019	% of Total Fund Value
	£'000	%
LGIM World Developed Equity Index (Currency Hedged) Fund	672,704	15.6%
LGIM UK Equity Index Fund	621,631	14.4%
Baillie Gifford Diversified Growth Fund	308,767	7.2%
Barings Dynamic Asset Allocation Fund	298,164	6.9%
LGIM Multi-Factor North America Equity Fund	259,946	6.0%
Wellington Multi Sector Credit Fund	226,429	5.3%

16. Analysis of Pooled Funds

2018/19 £'000		2019/20 £'000
	UK	
681,237	Unit Trusts	607,836
317,718	Property Funds	314,966
621,631	Unitised Insurance Policies	506,394
34,066	Other Managed Funds (Equities)	37,332
	Overseas	
178,436	Unit Trusts	94,252
61,217	Property Funds	57,996
1,191,482	Unitised Insurance Policies	998,955
221,413	Other Managed Funds (Equities)	708,263
296,700	Other Managed Funds (Fixed Interest)	354,095
3,603,900	**Total Pooled Funds**	**3,680,089**

17. Analysis of Fund Assets

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board. Alternatives comprise property funds, infrastructure, private debt and derivatives investments.

31st March 2020

	UK £'000	Non UK £'000	Global £'000	Total £'000
Equities	533,552	210,041	1,514,397	2,257,990
Bonds	15,047	258,395	246,728	520,170
Alternatives	405,306	110,922	130,408	646,636
Cash and cash equivalents	41,909	8,511	0	50,420
Other	0	0	526,061	526,061
Total	**995,814**	**587,869**	**2,417,594**	**4,001,277**

31st March 2019

	UK £'000	Non UK £'000	Global £'000	Total £'000
Equities	717,898	816,872	1,019,179	2,553,949
Bonds	11,770	210,929	226,428	449,127
Alternatives	392,024	91,435	127,309	610,768
Cash and cash equivalents	65,934	5,447	0	71,381
Other	0	0	606,931	606,931
Total	**1,187,626**	**1,124,683**	**1,979,847**	**4,292,156**

18. Analysis of Investment Income

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board. Alternatives comprise property funds, infrastructure, private debt and derivatives investments.

2019/20

	UK	Non UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	725	4,776	17	5,518
Bonds	410	7,414	0	7,824
Alternatives	15,005	3,982	17,426	36,413
Cash and cash equivalents	690	0	0	690
Other	0	0	8,906	8,906
Total	**16,830**	**16,172**	**26,349**	**59,351**

2018/19

	UK	Non UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	1,342	6,976	(270)	8,048
Bonds	499	7,200	0	7,699
Alternatives	14,281	1,821	9,822	25,924
Cash and cash equivalents	707	0	0	707
Other	0	0	7,559	7,559
Total	**16,829**	**15,997**	**17,111**	**49,937**

19. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme’s objective is to decrease the risk in the portfolio by entering into future positions to match current assets that are already held in the portfolio without disturbing the underlying assets.

20. Current Assets and Liabilities

The Analysis of Current Assets and Liabilities does not include purchases and sales of investments not yet due for settlement or investment income due. They are included within net investment assets and liabilities. Current assets and liabilities are valued at the fair value approximation of historical cost. Current assets and liabilities are all short term and there is no active market in which they are traded.

31 March 2019 £'000		31 March 2020 £'000
	Current Assets	
	Debtors and Prepayments	
	Contributions Receivable	
11,054	Employers	10,298
	Current portion of non current assets	
3,008	(Employers contributions)	1,504
2,954	Employees	3,175
1,937	Other debtors	18,103
18,953		**33,080**
	Current Liabilities	
	Creditors and Receipts in Advance	
(2,638)	Devon County Council	(2,825)
(5,020)	Other creditors	(20,417)
(7,658)		**(23,242)**

21. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £6,924 millions as at 31 March 2020 (£7,415 millions as at 31 March 2019). The Funded Obligation consists of £6,804 millions (£7,205 millions as at 31 March 2019) in respect of Vested Obligation and £120 millions (£210 millions as at 31 March 2019), of Non-Vested Obligation.

These figures have been prepared by the Fund Actuary (Barnett Waddingham LLP) in accordance with their understanding of IAS 26. In calculating the disclosed numbers the Actuary has adopted methods and assumptions that are consistent with IAS 19.

Actuarial Methods and Assumptions

Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2020, the actuary has rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2020 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2020 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

This has been updated since the last accounting date when the results were based on a continuation of the roll forward from the 31 March 2016 funding valuation.

Experience items allowed for since the previous accounting date

Results are based on a roll forward of a full valuation of funded membership data at 31 March 2019. As a result of allowing for actual experience, which may be different from that assumed previously, an experience item may be observed in the reconciliation of liabilities to 31 March 2020. The Actuary has allowed for the estimated impact of the recent McCloud judgement as a past service cost. They have estimated the impact on the total liabilities as at 31 March 2020 to be £51 millions (£55 millions as at 31 March 2019). This is just over 0.7% of the Funded Obligation of £6.924 millions as at the 31 March 2020 (0.7 % of the Funded Obligation of £7.415 millions as at the 31 March 2019).

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of the pension liabilities. It is the Actuaries' understanding that the HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of the public service pension schemes can be found on the www.gov.uk website.

On 22 January 2018, the Government published the outcome to its 'Indexation and equalisation of GMP in public service pension schemes' consultation, concluding that the requirement for the public service pension schemes to fully price protect the GMP element of the individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and Ministerial Direction can be found on the www.gov.uk website.

The Actuary's valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by the 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Actuary has assumed that the Fund will be required to pay the entire inflationary increase. Therefore, the Actuary does not believe they need to make any adjustments to the value placed on the liabilities as a result of the above.

Impact of McCloud/Sargeant Judgement

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned the Government Actuaries Department (GAD) to report on the possible impact of the McCloud/Sargeant judgement on the Local Government Pension Scheme (LGPS) liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a 'worse case' basis (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

The Actuary has used this analysis provided by GAD to estimate the possible impact of the McCloud/Sargeant judgement for the Fund. The key assumption is the assumed rate of future salary increases which is set out in the Financial assumptions section below.

The summary of the Actuaries impact assessment is as follows:

GAD estimated the impact of past service liabilities to be 3.2% of active liabilities base on a salary increase assumption of CPI plus 1.5% p.a.

Adjusting this to reflect the Fund's salary increase assumption (which is that salaries will increase at 1.0% above CPI), gives an estimated impact of 2.1% of active liabilities

Adjusting this to allow for the additional accrual of liabilities since 31 March 2019 and an approximate adjustment to strip out members who joined the Scheme who are unlikely to be affected by the outcome of the judgement gives an estimated impact of 2.0% of active liabilities.

This is equivalent to 0.7% of the Fund's total liabilities at the accounting date
(i.e. active liabilities are estimated to be 36% of the Fund's total liabilities at the accounting date).

Demographic/Statistical Assumptions

The Actuary has adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 95% for males and 110% for females.

These base tables are then projected using the CMI 2018 Model, allowing for long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a. This has been updated since the last accounting date where the demographic assumptions were based on those adopted for the Fund's 31 March 2016 valuation with updates to the latest mortality improvement projection model, CMI 2018.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	31 March 2019	31 March 2020
Retiring Today		
Males	22.4	22.9
Females	24.4	24.1
Retiring in 20 years		
Males	24.1	24.3
Females	26.2	25.5

The Actuary has also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

Assumptions as at	31 March 2020 % p.a	31 March 2019 % p.a	31 March 2018 % p.a
Discount rate	2.4%	2.4%	2.6%
Pension Increases	1.9%	2.4%	2.3%
Salary Increases	2.9%	3.9%	3.8%

These assumptions are set with reference to market conditions at 31 March 2020.

The Actuary's estimate of the duration of the Fund's liabilities is 21 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. The estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows as described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the Bank of England (BoE) implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 1.9% p.a. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation.

22. Taxation

Value Added Tax The Fund is reimbursed by H.M.Revenue & Customs, and the accounts are shown exclusive of this tax.

Income Tax The Pension Fund is an exempt fund, and where permitted U.K tax on interest and dividends is recovered from H.M.Revenue & Customs. The Pension Fund cannot reclaim the 10% tax credit attached to U.K. company dividends which are included net of the tax credit.

Withholding Tax This is payable on income from overseas investments. This tax is recovered wherever local tax law permits.

23. Financial Instrument Disclosures

The Net Assets of the Fund disclosed in the Net Asset Statement are made up of the following categories of financial instruments:

Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	2018/19				2019/20	
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
222,699	0	0	Bonds	273,442	0	0
388,635	0	0	Equities (Listed)	0	0	0
3,224,966	0	0	Pooled investments	3,307,127	0	0
378,934	0	0	Pooled property investments	372,962	0	0
6,614	0	0	Derivative contracts	7,199	0	0
0	65,903	0	Cash	0	47,797	0
395	0	0	Long Term investments	427	0	0
5,671	0	0	Other investment balances	3,759	0	0
0	20,792	0	Debtors	0	34,584	0
4,227,914	**86,695**	**0**		**3,964,916**	**82,381**	**0**
			Financial Liabilities			
(1,468)	0	0	Derivative contracts	(10,300)	0	0
0	0	(193)	Other investment balances	0	0	(1,136)
0	0	(10,666)	Creditors	0	0	(24,746)
(1,468)	**0**	**(10,859)**		**(10,300)**	**0**	**(25,882)**
4,226,446	**86,695**	**(10,859)**		**3,954,616**	**82,381**	**(25,882)**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:

31 March 2019		31 March 2020
£'000		£'000
	Financial assets	
237,180	Fair value through profit and loss	(328,326)
2,278	Amortised Cost	(439)
239,458		**(328,765)**
	Financial liabilities	
2,446	Fair value through profit and loss	(6,878)
0	Amortised Cost	0
2,446		**(6,878)**

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2018/19 and 2019/20 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

24. Hedge Accounting

Hedging is the process of entering into a derivative contract with the objective of reducing or eliminating exposure to a risk. This is achieved because expected changes in the value or cash flows of the hedging of the hedged item move in the opposite direction to expected changes in the value or cash flow of other investment holdings.

The Pension Fund enters hedging in order to manage risk and not for speculation purposes.

2019/20

	Nominal Value	Inception Date	Carrying Value at 31 March 2020	Changes in Fair Value 2019/20	Changes in Fair Value since inception	Hedge Ineffective-ness 2019/20	Hedge Ineffective-ness since inception
	£'000		£'000	£'000	£'000	%	%
Pooled Investments - Overseas Unit Trusts							
Forward Currency Contracts	(16,964)	08/01/2020	(17,700)	(736)	(736)	4.3	4.3
Pooled Investments - Overseas Other Managed Funds							
Forward Currency Contracts	(33,929)	08/01/2020	(35,400)	(1,471)	(1,471)	4.3	4.3

2018/19

	Nominal Value	Inception Date	Carrying Value at 31 March 2019	Changes in Fair Value 2018/19	Changes in Fair Value since inception	Hedge Ineffective-ness 2018/19	Hedge Ineffective-ness since inception
	£'000		£'000	£'000	£'000	%	%
Pooled Investments - Overseas Unit Trusts							
Forward Currency Contracts	(26,945)	07/12/2018	(25,910)	1,035	1,035	(3.8)	(3.8)
Pooled Investments - Overseas Other Managed Funds							
Forward Currency Contracts	(44,908)	07/12/2018	(43,183)	1,725	1,725	(3.8)	(3.8)

The pooled investments effectiveness has been recognised as part of change in the market value of the investment.

25. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – Quoted UK and overseas unit trusts	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments - UK and overseas property funds, unitised insurance policies and other managed funds	Level 2	* Closing bid price where bid and offer prices are published * Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Forward Currency Contracts	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
UK and Overseas Unit Trusts (Venture Capital and Partnerships)	Level 3	Based on cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines	* Market conditions * Company business plans * Financial projections * Economic outlook * Performance of the investments * Business analysis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and interest rates that are inputs to the valuation models, such as the discounted cash flow models used in the valuation of unlisted investments.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March.

As at 31 March 2020	Assessed valuation range (+/-)	Value at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
UK Unit Trusts (Venture Capital and Partnerships)	5.36%	63,272	66,663	59,881
Overseas Unit Trusts (Venture Capital and Partnerships)	5.36%	21,920	23,095	20,745
UK Other Managed Funds	5.36%	8,565	9,024	8,106
Overseas Other Managed Funds	5.17%	121,269	127,539	114,999
Long Term Investments	12.95%	427	482	372
Total		**215,453**	**226,803**	**204,103**

All movements in the assessed valuation range of the above investments derive from changes in the underlying profitability of component companies, the range in the potential movement quoted is caused by how this profitability is measured since different methods (listed in Note 25) produce different price results.

As at 31 March 2019	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
UK Unit Trusts (Venture Capital and Partnerships)	5.30%	55,933	58,895	52,970
Overseas Unit Trusts (Venture Capital and Partnerships)	5.30%	26,018	27,395	24,640
Overseas Other Managed Funds	3.45%	76,153	78,780	73,526
Long Term Investments	8.87%	395	430	360
Total		**158,499**	**165,500**	**151,496**

Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data.

The Archmore (UBS) International Infrastructure Fund LLP, the Hermes GPE Infrastructure Fund LLP, Aviva Investors Infrastructure Fund, Golub Capital partners international Fund 11 LLP, Arcmont (formerly Bluebay) Senior Loan Fund 1 LLP, Mirova Core Infrastructure Fund II, NTR Renewable Energy Funs II, Capital Dynamics Clean Energy Infrastructure Fund VII and Capital Dynamics Clean Energy Infrastructure Fund VIII have been classified as level 3 financial instruments.

The values of the investments in infrastructure funds are based on valuations provided by the fund managers. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The total gain/(loss) in fair value is calculated based on valuations that are recognised in the Fund Account are detailed below:

	2018/19	2019/20
	£'000	£'000
Archmore (UBS) International Infrastructure Fund LLP	994	(295)
Aviva Infrastructure Income Fund	909	(2,803)
Arcmont Senior Loan Fund I	1,094	(1,753)
Capital Dynamics Clean Energy Fund VII A	-	(29)
Capital Dynamics Clean Energy Fund VIII	-	(149)
Golub Capital Partners International Fund 11	2,702	5,653
Hermes GPE Infrastructure Fund LLP	(819)	3,154
Mirova Core Infrastructure Fund II	(106)	1,116
NTR Renewable Energy Fund II	(130)	(18)
Brunel Pension Partnership	(445)	32
	4,199	4,908

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

At 31 March 2020

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Long Term Investments	-	-	427	427
Investment Assets				
Fixed Interest				
U.K. Public Sector Bonds	13,721	-	-	13,721
Overseas Government Bonds	153,358	-	-	153,358
UK Corporate Bonds	1,326	-	-	1,326
Overseas Corporate Bonds	105,037	-	-	105,037
Equities (Listed)				
U.K.	-	-	-	-
Overseas	-	-	-	-
Pooled investments	598,393	2,493,709	215,025	3,307,127
Pooled property investments	-	372,962	-	372,962
Derivative Assets				
Forward Currency Contracts	-	7,199	-	7,199
Cash Deposits				
Foreign Currency	8,511	-	-	8,511
Short Term Deposits	27,243	-	-	27,243
Cash & Bank Deposits	12,043	-	-	12,043
Investment income due	3,759	-	-	3,759
Amounts receivable for sales	-	-	-	-
Investment Liabilities				
Derivatives				
Forward Currency Contracts	-	(10,300)	-	(10,300)
Amounts payable for purchases	(1,136)	-	-	(1,136)
Assets and Liabilities				
Non current Assets	-	1,504	-	1,504
Non current Liabilities	-	(1,504)	-	(1,504)
Current Assets	-	33,080	-	33,080
Current Liabilities	-	(23,242)	-	(23,242)
Net Assets of the Fund at 31 March 2020	**922,255**	**2,873,408**	**215,452**	**4,011,115**

At 31 March 2019

	Quoted market price - Restated	Using observable inputs - Restated	With Significant unobservable inputs	
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Long Term Investments	-	-	395	395
Investment Assets				
Fixed Interest				
U.K. Public Sector Bonds	11,770	-	-	11,770
Overseas Government Bonds	135,440	-	-	135,440
UK Corporate Bonds	-	-	-	-
Overseas Corporate Bonds	75,489	-	-	75,489
Equities (Listed)				
U.K.	39,901	-	-	39,901
Overseas	348,734	-	-	348,734
Pooled investments	759,350	2,307,512	158,104	3,224,966
Pooled property investments	-	378,934	-	378,934
Derivative Assets				
Forward Currency Contracts	-	6,614	-	6,614
Cash Deposits				
Foreign Currency	5,447	-	-	5,447
Short Term Deposits	22,581	-	-	22,581
Cash & Bank Deposits	37,875	-	-	37,875
Investment income due	4,792	-	-	4,792
Amounts receivable for sales	879	-	-	879
Investment Liabilities				-
Derivatives				
Forward Currency Contracts	-	(1,468)	-	(1,468)
Amounts payable for purchases	(193)	-	-	(193)
Assets and Liabilities		-	-	-
Non current Assets	1,839	-	-	1,839
Non current Liabilities	(3,008)	-	-	(3,008)
Current Assets	18,953	-	-	18,953
Current Liabilities	(7,658)	-	-	(7,658)
Net Assets of the Fund at 31 March 2019	**1,452,191**	**2,691,592**	**158,499**	**4,302,282**

Assets and Liabilities financial instruments have had their fair value hierarchies reclassified from level 1 at 31 March 2019 to level 2 for 31 March 2020 because the valuation uses inputs other than quoted prices that are observable.

Reconciliation of Fair Value Measurements within Level 3

	Value at 31 March 2019	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31 March 2020
	£'000	**£'000**	**£'000**	**£'000**	**£000**	**£'000**
Investment Assets						
UK Unit Trusts (Venture Capital and Partnerships)	55,933	10,170	(3,182)	322	29	63,272
Overseas Unit Trusts (Venture Capital and Partnerships)	26,018	0	(3,803)	(295)	0	21,920
UK Other Managed Funds	0	8,941	(227)	(149)	0	8,565
Overseas Other Managed Funds	76,153	60,446	(20,300)	1,311	3,658	121,268
Long Term Investments	395	0	0	32	0	427
	158,499	**79,557**	**(27,512)**	**1,221**	**3,687**	**215,452**

	Value at 31 March 2018	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31 March 2019
	£'000	**£'000**	**£'000**	**£'000**	**£000**	**£'000**
Investment Assets						
UK Unit Trusts (Venture Capital and Partnerships)	52,372	5,514	(2,044)	(53)	144	55,933
Overseas Unit Trusts (Venture Capital and Partnerships)	25,444	0	(420)	994	0	26,018
Overseas Other Managed Funds	27,137	55,995	(10,539)	1,932	1,628	76,153
Long Term Investments	840	0	0	(445)	0	395
	105,793	**61,509**	**(13,003)**	**2,428**	**1,772**	**158,499**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

26. Additional Financial Risk Management Disclosures

The activities of the Pension Fund are exposed to a variety of financial risks; market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's investments are managed on behalf of scheme members by the Investment Managers. As a result of the investment pooling agenda, some of the fund's assets are now pooled with those of other LGPS Funds and managed by the Brunel Pension Partnership. Each investment manager, including Brunel, is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

The Investment and Pension Fund Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Investment and Pension Fund Committee obtains regular reports from each investment manager on the nature of the investments made and associated risks.

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 9 Financial Instruments disclosures and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the Fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is limited by applying strategic targets to asset allocation, which are monitored by the Investment and Pension Fund Committee.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

The Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies.

Other Price Risk - Sensitivity Analysis

Following analysis of data by PIRC (Pensions and Investment Research Consultants Ltd.), it has been determined that the following movements in market price risk were reasonably possible for the reporting period:

Asset Class	Percentage Change 2018/19	Percentage Change 2019/20
Equities	8.87%	12.95%
Bonds	3.45%	5.17%
Cash	2.11%	0.50%
Pooled Property Investments	1.44%	2.52%
Infrastructure	5.30%	5.36%
Pooled Multi Asset	4.66%	9.11%

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets based on movements over the previous 3 years. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.

An increase or decrease in the market price of the investments of the Fund by the percentages given at 31 March would have increased or decreased the net assets available to pay benefits by the amount shown below:

As at 31 March 2020

Asset Class	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Equities	2,257,990	12.95%	292,366	(292,366)
Bonds	520,170	5.17%	26,868	(26,868)
Cash	50,420	0.50%	252	(252)
Pooled Property Investments	372,962	2.52%	9,386	(9,386)
Infrastructure	273,674	5.36%	14,661	(14,661)
Pooled Multi Asset	526,061	9.11%	47,943	(47,943)
Total	**4,001,277**		**391,476**	**(391,476)**

As at 31 March 2019

Asset Class	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Equities	2,553,949	8.87%	226,462	(226,462)
Bonds	449,127	3.45%	15,495	(15,495)
Cash	71,381	2.11%	1,503	(1,503)
Pooled Property Investments	378,934	1.44%	5,457	(5,457)
Infrastructure	231,834	5.30%	12,277	(12,277)
Pooled Multi Asset	606,931	4.66%	28,286	(28,286)
Total	**4,292,156**		**289,480**	**(289,480)**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rates are monitored during the year, both by the Fund's Investment Managers and by the Devon County Council Investments team. Short term deposits are made at fixed rates and monitored against a target rate for the year, with the aim of maximising interest within risk parameters set by the Investment and Pension Fund Committee.

The Fund's exposure to interest rate movements on those investments at 31 March 2019 and 2020 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Cash and cash equivalents	37,875	12,043
Short term Deposits	22,581	27,243
Fixed Interest	449,128	520,170
Total	**509,584**	**559,456**

Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact on the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of bond prices to interest rate changes depends upon both the maturity of the fixed interest security and the size and frequency of its coupon payments. Duration is used to measure interest rate risk and is the weighted average maturity of a bond, where the weights are the relative discounted cash flows in each period. Duration can then be adapted with reference to the yield of a bond to calculate modified duration, which is the percentage change in a bond's price for a 1% change in yields. Modified duration can be calculated for a portfolio of bonds, and modified duration figures have been provided by the Devon Pension Fund's two bond managers (Lazard and Wellington) for the portfolios that they manage. A weighted average has been used in the tables following.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below:

As at 31 March 2020	Carrying value at 31 March 2020	Modified Duration of Portfolio	Effect on Asset Values	
			+1%	-1%
	£'000	£'000	£'000	£'000
Cash and cash equivalents	12,043	-	-	-
Short term Deposits	27,243	-	-	-
Fixed Interest	520,170	5.59%	(29,090)	29,090
Total	**559,456**	**5.59%**	**(29,090)**	**29,090**

As at 31 March 2019	Carrying value at 31 March 2019	Modified Duration of Portfolio	Effect on Asset Values - Restated	
			+1%	-1%
	£'000	£'000	£'000	£'000
Cash and cash equivalents	37,875	-	-	-
Short term Deposits	22,581	-	-	-
Fixed Interest	449,128	5.79%	(25,993)	25,993
Total	**509,584**	**5.79%**	**(25,993)**	**25,993**

As at 31 March 2020	Amount receivable in year ending 31 March 2020	Effect on Income Values	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	690	7	(7)
Short term Deposits	0	-	-
Fixed Interest	7,828	-	-
Total	**8,518**	**7**	**(7)**

As at 31 March 2019	Amount receivable in year ending 31 March 2019	Effect on Income Values	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	707	7	(7)
Short term Deposits	0	-	-
Fixed Interest	7,718	-	-
Total	**8,425**	**7**	**(7)**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent or short term deposit balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk and Sensitivity Analysis

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Pound Sterling) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

The following table summarises:

i) The Fund's exposure at 31 March 2020 to currency exchange rate movements on its investments based on movements over the previous 3 years.

j) A sensitivity analysis based on historical data (published by Rates FX, with some additional data from PIRC) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2020 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2019.

As at 31 March 2020	Assets held at fair value	FX Contracts	Total	Percentage Change	Change for the year in net assets available to pay benefits + 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Argentine Peso	123	0	123	6.79%	8	(8)
Australian Dollar	34,389	1,005	35,394	8.16%	2,888	(2,888)
Brazilian Real	7,886	0	7,886	13.17%	1,039	(1,039)
Canadian Dollar	50,536	521	51,057	7.47%	3,814	(3,814)
Chilean Peso	4,712	0	4,712	12.97%	611	(611)
Chinese Yuan	76,555	(28)	76,527	7.46%	5,709	(5,709)
Colombian Peso	2,053	0	2,053	11.01%	226	(226)
Czech Republic Koruna	7,758	(3)	7,755	7.01%	544	(544)
Danish Krona	4,281	0	4,281	7.00%	300	(300)
Euro	213,111	(2,992)	210,119	6.72%	14,120	(14,120)
Hong Kong Dollar	19,420	0	19,420	7.73%	1,501	(1,501)
Hungarian Forint	9,051	176	9,227	8.26%	762	(762)
Indian Rupee	3,738	0	3,738	8.19%	306	(306)
Indonesian Rupiah	6,416	0	6,416	7.89%	506	(506)
Israeli Shekel	3,304	0	3,304	8.73%	288	(288)
Japanese Yen	62,812	1,218	64,030	8.72%	5,583	(5,583)
Malaysian Ringgit	1,849	0	1,849	7.18%	133	(133)
Mexican Peso	10,859	379	11,238	11.95%	1,343	(1,343)
Morroccan Dirham	346	0	346	5.35%	19	(19)
New Taiwan Dollar	20,852	0	20,852	7.61%	1,587	(1,587)
New Turkish Lira	1,537	0	1,537	18.38%	283	(283)
New Zealand Dollar	9,518	219	9,737	7.79%	759	(759)
Nigerian Naira	587	0	587	6.79%	40	(40)
Norwegian Krone	10,087	364	10,451	8.75%	914	(914)
Peruvian Sol	5,368	0	5,368	4.83%	259	(259)
Philipines Peso	5,270	0	5,270	7.33%	386	(386)
Polish Zloty New	7,943	38	7,981	7.34%	586	(586)
Qatari Rial	136	0	136	8.18%	11	(11)
Romanian Leu	8,305	(87)	8,218	6.79%	558	(558)
Russian Rouble	4,107	0	4,107	13.04%	536	(536)
Saudi Arabia Riyal	167	0	167	6.79%	11	(11)
Singapore Dollars	6,107	(47)	6,060	6.35%	385	(385)
South African Rand	6,284	0	6,284	13.77%	865	(865)
South Korean Won	18,425	(52)	18,373	7.76%	1,426	(1,426)
Swedish Krona	7,984	8	7,992	7.65%	611	(611)
Swiss Franc	35,698	41	35,739	7.29%	2,605	(2,605)
Thailand Baht	4,986	0	4,986	7.48%	373	(373)
UAE Dirham	1,231	0	1,231	7.28%	90	(90)
US Dollars	745,231	(3,861)	741,370	7.73%	57,308	(57,308)
Vietnamese Dong	1,275	0	1,275	6.79%	87	(87)
	1,420,297	**(3,101)**	**1,417,196**		**109,380**	**(109,380)**

As at 31 March 2019	Assets held at fair value	FX Contracts	Total	Percentage Change	Change for the year in net assets available to pay benefits + 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Australian Dollar	25,902	218	26,120	9.38%	2,450	(2,450)
Brazilian Real	8,705	0	8,705	13.82%	1,203	(1,203)
Canadian Dollar	23,851	232	24,083	9.04%	2,177	(2,177)
Swiss Franc	23,426	(5)	23,421	8.49%	1,988	(1,988)
Chilean Peso	8,040	0	8,040	11.87%	954	(954)
Colombian Peso	2,139	0	2,139	13.70%	293	(293)
Czech Republic Koruna	4,365	25	4,390	8.46%	371	(371)
Danish Krona	734	0	734	7.97%	58	(58)
Euro	310,674	3,157	313,831	7.99%	25,075	(25,075)
Hong Kong Dollar	49,227	0	49,227	9.37%	4,613	(4,613)
Hungarian Forint	4,594	53	4,647	9.09%	422	(422)
Indonesian Rupiah	9,514	0	9,514	9.39%	893	(893)
Indian Rupee	971	0	971	9.35%	91	(91)
Israeli Shekel	220	0	220	8.82%	19	(19)
Japanese Yen	64,300	(404)	63,896	12.17%	7,776	(7,776)
South Korean Won	17,644	0	17,644	9.18%	1,620	(1,620)
Mexican Peso	7,743	17	7,760	12.84%	996	(996)
Malaysian Ringgit	2,315	0	2,315	8.78%	203	(203)
Norwegian Krone	7,941	11	7,952	8.36%	665	(665)
New Zealand Dollar	8,301	(5)	8,296	9.76%	810	(810)
Philipines Peso	9,088	0	9,088	9.19%	836	(836)
Polish Zloty New	5,887	47	5,934	8.77%	520	(520)
Romanian Leu	3,968	(17)	3,951	11.54%	456	(456)
Swedish Krona	4,571	0	4,571	8.39%	384	(384)
Singapore Dollars	11,833	45	11,878	8.19%	973	(973)
Thailand Baht	9,608	0	9,608	9.05%	870	(870)
New Turkish Lira	1,662	0	1,662	18.67%	310	(310)
New Taiwan Dollar	9,865	0	9,865	8.99%	887	(887)
US Dollars	793,925	1,773	795,698	9.40%	74,796	(74,796)
South African Rand	6,752	0	6,752	15.20%	1,026	(1,026)
	1,437,765	**5,147**	**1,442,912**		**133,735**	**(133,735)**

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Fixed Interest	222,699	273,442
UK Equities - Quoted	39,901	0
Overseas Equities - Quoted	348,734	0
Pooled investments	3,224,966	3,307,127
Pooled property investments	378,934	372,962
Derivatives (net)	5,146	(3,101)
Foreign currency	5,447	8,511
Short term deposits	22,581	27,243
Cash and cash equivalents	37,875	12,043
Settlements and dividends receivable	5,671	3,759
Long Term Investment	395	427
Total of investments held	**4,292,349**	**4,002,413**

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of assets that are invested by individual investment managers and in specific investment trusts. The contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default.

Credit risk on exchange traded derivative contracts is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Interest rate agreements and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Fund pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Fund.

The Fund's exposure to credit risk at 31 March is the carrying amount of the financial assets.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund’s cash holding (short term deposits and cash equivalents) under its treasury management arrangements at 31 March 2020 was £27.243 millions (31 March 2019: £22.581 millions). This was held with the following institutions:

Credit Rating at 31 March 2020	**Fitch**	**Moody's**	**Standard & Poor's**	**Balances as at 31 March 2019 £'000**	**Balances as at 31 March 2020 £'000**
Banks and Building Societies					
Handelsbanken	AA	Aa2	AA-	0	947
Money Market Funds					
Aberdeen Money Market Fund	AAA	Aaa	AAA	22,581	26,296
				22,581	**27,243**

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a pool of cash. As this pool reduces other strategies will be developed to eliminate this risk. In the first instance, income from investments, now held and reinvested by fund managers, will be used to meet liquidity shortfall.

27. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2013, the fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The key elements of the funding policy are:

- Establish a clear and transparent fund-specific strategy that will identify how employers’ pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the Regulations;

- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the fund are met; and
- Take a prudent longer-term view of funding those liabilities.

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a short period of time, normally three years.

Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the fund was assessed as 91% funded (84% at the March 2016 valuation). This corresponded to a deficit of £399 millions (2016 valuation: £628 millions) at that time.

The primary rate (previously known as the future service rate) over the three year period ending 31 March 2023 is 16.9% of payroll. The secondary rate (the deficit recovery rate) totals £21.467 millions in 2020/21 across all the Fund's employers, equivalent to an average of 9.3% of payroll.

Individual employers' rates will vary from the primary and secondary rates above depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report on www.peninsulapensions.org.uk and the funding strategy statement can also be found there.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. Allowances have been made for the McCloud/Sargeant case and GMP within the assumptions used for the triennial valuation of the fund. The principal assumptions for the Fund were:

Financial Assumptions

Assumptions	Rate
Investment return (discount rate)	5.1%
Salary Increases	3.6%
Pension increases in line with CPI	2.6%

Mortality assumptions

Life Expectancy from 65 (years)	31 March 2020
Retiring Today	
Males	22.8
Females	24.0
Retiring in 20 years	
Males	24.2
Females	25.4

Historic mortality assumptions

Life expectancy for the year ended 31 March 2019 are based on S3PA tables with a multiplier of 95% for males and 110% for females. The allowances for future life expectancy are based on the 2018 CMI Model allowing for a long-term rate of improvement of 1.25% per annum, smoothing parameter of 7.5 and an initial addition to improvements of 0.5 % per annum.

Commutation assumption

It is assumed that at retirement 50% of members will opt to increase their lump sum to the maximum allowed.

Post valuation events

Since the valuation date there has been some very significant movement in investment markets and in particular over the three months to 31 March 2020, largely driven by the COVID-19 crisis. However, the Actuary funding model is designed to help withstand short-term volatility in markets as it is a longer-term model and they also use smoothed assumptions over a six-month period with the ultimate aim of setting stable contributions for employers. Therefore, although the falls in equity and corporate bond markets have been significant, the ongoing funding position under their model will not have fallen to the same extent, as the model helps to mitigate some of the impact of extreme events.

Statistical Summary

Financial Summary

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Contributions and Benefits					
Contributions	(153,280)	(159,873)	(168,808)	(176,196)	(248,155)
Transfers in from other pension funds	(4,766)	(8,205)	(6,481)	(6,134)	(17,279)
	(158,046)	(168,078)	(175,289)	(182,330)	(265,434)
Benefits Paid	166,247	168,016	173,772	180,638	188,470
Payments to and on account of leavers	7,429	6,403	5,855	9,747	12,756
	173,676	174,419	179,627	190,385	201,226
Net (Additions) Withdrawals from Dealings with Fund members	**15,630**	**6,341**	**4,338**	**8,055**	**(64,208)**
Management Expenses	**13,945**	**12,286**	**18,084**	**17,999**	**19,732**
Returns on Investments					
Investment Income	(35,743)	(39,852)	(44,578)	(49,937)	(59,351)
(Increase) /decrease in Market Value of Investments during the Year	44,679	(571,754)	(135,382)	(191,967)	394,994
Net Returns on Investments	**8,936**	**(611,606)**	**(179,960)**	**(241,904)**	**335,643**
Net Assets of the Fund at 31 March	**(3,335,915)**	**(3,928,894)**	**(4,086,432)**	**(4,302,282)**	**(4,011,115)**

Members Summary

	2015/16 No.	2016/17 No.	2017/18 No.	2018/19 No.	2019/20 No.
Devon County Council					
Contributors	13,154	12,455	11,484	11,166	10,547
Pensioners and Dependants	12,720	13,737	14,117	14,548	14,894
Deferred Pensioners	16,171	18,923	20,080	20,240	19,235
Other Employers					
Contributors	24,525	26,051	27,728	27,458	28,624
Pensioners and Dependants	16,415	18,050	18,976	22,118	21,056
Deferred Pensioners	23,081	28,217	30,139	32,616	32,490

* Deferred pensioners include frozen memberships pending refunds and those undecided pending resolution.

Employing Bodies

	Active	Ceased	Total
Scheduled body	139	5	144
Admitted body	75	1	76
Total	**214**	**6**	**220**

There are currently 214 employers who have active members in the Fund.

Administering Authority

Devon County Council

Scheduled Bodies

Academy For Character and Excellence
ACE Schools Multi Academy Trust (Plymouth)
Acorn Multi Academy Trust
Alumnis MAT
An Daras Multi Acadmey Trust
Ashburton Town Council
Avanti Hall School - Former Steiner Exeter
Axe Valley Academy
Axminster Town Council
Axmouth Parish Council
Barnstaple Town Council
Barton Hill Academy
Bay Education Trust
Bicton College (Cornwall College)
Bideford Town Council
Bishopsteignton Parish Council
Bovey Tracey Town Council
Bradninch Town Council
Bradworthy Primary Academy
Braunton Academy
Braunton Parish Council
Brixham Academy
Brixham Town Council
Broadclyst Parish Council
Buckland Monachorum Parish Council
Budleigh Salterton Town Council
Catch 22 Multi Academy Trust
Chudleigh Town Council
Chulmleigh Academy Trust
Churston Academy
City College Plymouth
Clyst Honiton Parish Council
Clyst Vale Community College Academy
Coast Academies
Colyton Grammar School Academy
Combe Martin Parish Council
Connect Academy Trust
Coombe Pafford Academy
Cornerstone Academy Trust
Cranbrook Town Council
Crediton Town Council
Cullompton Town Council
Dartmoor Multi Academy Trust
Dartmoor National Park
Dartmouth Town Council
Dawlish Town Council
Devon & Cornwall Police & Crime Commissioner
Devon & Somserset Fire & Rescue Service
Devonport High School for Boys Academy
Devonport High School for Girls Academy
Discovery Multi Academy Trust
East Devon District Council
Education South West
Eggbuckland Community College Academy
Estuaries Multi Academy Trust
Exeter City Council
Exeter College
Exeter Learning Academy Trust
Exeter Mathematics School
Exmouth Community College
Exmouth Town Council
Exwick Ark
First Federation Trust
Fremington Parish Council
Great Torrington Academy
Great Torrington Town Council
Hayes Road Academy
Holcombe Brunel Parish Council
Honiton Community College
Honiton Town Council
Horizon Multi Academy Trust
Ilfracombe Town Council
Inspiring Schools Partnership
Ivybridge Town Council
Kings Academy
Kingsbridge Town Council
Kingsteignton Town Council
Launceston Multi Academy Trust
Learning Academies Trust
Learning Academy Partnership
Lipson Academy
Littletown Primary Academy
Lynton & Lynmouth Town Council
Marine Academy Plymouth
Mid Devon District Council
Moretonhampstead Parish Council
Newton Abbot Academy
Newton Abbot Town Council
North Devon District Council
Okehampton Town Council
Osprey Learning Trust
Petroc
Plymouth Academy Trust
Plymouth CAST
Plymouth City Bus
Plymouth City Council
Plymouth College Of Art & Design
Plymouth School of Creative Arts
Plymouth University
Plympton Academy
Queen Elizabeth's Academy Trust
Reach South Academy Trust
Riviera Education Trust
Seaton Town Council
Sidmouth Town Council
South Brent Parish Council
South Dartmoor Academy
South Devon College
South Devon UTC
South Hams District Council
South Molton Town Council
Sparkwell Primary Academy
St Christophers Primary Multi Academy Trust
St Christophers Secondary Multi Academy Trust
St James Church of England Primary Academy
St Margaret's Academy
Stockland Academy
Stokenham Parish Council
Tarka Learning Academy Partnership Multi Academy Trust
Tavistock Town Council
Team Multi Academy Trust
Ted Wragg Multi Academy Trust
Tedburn St Mary Parish Council
Teignbridge District Council
Teignmouth Town Council
The All Saints Church of England Academy
The Inspire Multi Academy Trust
The Link Academy Multi Academy Trust
Tor Bridge High Academy
Torbay Council
Torquay Boys' Grammar School Multi Academy Trust
Torquay Girls Academy
TORRE Church of England Academy
Torridge District Council
Totnes Town Council
Uffculme Academy Trust
Ugborough Parish Council
United Schools Trust
WAVE Multi Academy Trust
Westcountry Schools Trust
West Devon Borough Council
Witheridge Parish Council
Ventrus Multi Academy Trust

Admitted Bodies

Access Plymouth
Action for Children
Action for Children - West Exeter Childrens Centre
Aspens Services Ltd
Babcock
Barnardos - 4Children (C4)
Barnardos - Dell Children's Centre
Barnardos - Plymouth/Whitleigh - Devon 3
Bournemouth Churches Housing Association
Burton Art Gallery
CATERed Ltd
Caterlink Ltd
Chartwells (Holsworthy)
Chartwells (N Tawton)
Chartwells (OLCS)
Churchill Services
Compass Group UK
Cormac Solutions Ltd
Dame Hannah Rogers School
DCC South West Heritage Trust
Delt - Plymouth City
Delt Part - Print Services
Delt Shared Services Ltd
Devon & Severn IFCA
Devon Norse Catering
Devon Norse Cleaning
Devon Norse Facilities Management
Devon Wildlife Trust
DYS Space Ltd
Exeter Royal Academy for Deaf Education
FCC Environment
FISHKIDS
FRESHA
Fully Catered Ltd
Fusion Leisure
Healthwatch
Innovate (Honiton Community College)
Interserve Catering Services Plymouth
Interserve Projects Ltd
ISS Torbay Schools
LED Leisure Management Ltd
LEX Leisure
Libraries Unlimited
Livewell South West
Mama Bears Day Nursery
Medigold
Millfields Trust
Mitie PLC (Devon)
NHS Care
North Devon Homes
North Devon Joint Crematorium
On Course South West
Peninsula Dental Social Enterprise
Plymouth Citizen's Advice Bureau
Plymouth Community Homes
Plymouth Learning Partnership (PLP)
Quadron Services Ltd
Red One Ltd
Sanctuary Housing
Servicemaster Clean Contr serv
SLM Community Leisure
SODEXO
South West Highways
Strata
Streets Coaches
Teign Housing
The Childrens Society
Tor2 Ltd
Torbay Coast & Countryside Trust
Torbay Community Development Trust
Torbay Economic Development Academy
Torbay Youth Trust
University Commercial Services
Viridor
Westward Housing Group
Wolseley Community Economic Development Trust

Statement of the Actuary for the year ended 31 March 2020

Introduction

The last full triennial valuation of the Devon County Council Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £4,273 millions;
- The Fund had a funding level of 91% i.e. the assets were 91% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £399m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 16.9% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's primary and secondary rates are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised following:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI Inflation	2.6% p.a.
Long-term salary increases	3.6% p.a.
Discount rate	5.1% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increases.
Demographic assumptions	
Post-retirement mortality	Male / Female
Member base tables	SP3A
Member mortality multiplier	95% / 110%
Dependant base tables	S3DA
Dependant mortality multiplier	95% / 80%
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.5
Initial addition to improvements	0.5% p.a.
The mortality assumptions translate to life expectancies as follows:	
Assumed life expectancies at age 65:	Men / Women
Average life expectancy for current pensioners - currently age 65	22.8 years / 24.0 years
Average life expectancy for current pensioners - currently age 45	24.2 years / 25.4 years

Further details of these assumptions can be found in the relevant actuarial valuation report.

Updated position since the 2019 Valuation

Returns were strong for the first three quarters following the valuation date, however, recent market movements have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were significantly less than where they were projected to be based on the previous valuation.

The value placed on the liabilities will have increased due to the accrual of new benefits although this will have been offset to some extent by the increase in the real discount rate (the difference between the discount rate assumption and CPI inflation assumption) underlying the valuation funding model.

On balance, we estimate that the funding position will have fallen slightly when compared on a consistent funding basis to 31 March 2019, falling from 91% to 90% at 31 March 2020. However, please note that this estimate is based on smoothed financial assumptions designed to manage volatility in markets. On an unsmoothed basis, considering market conditions as at 31 March 2020 only, the funding level will have deteriorated further to around 86%.

The increase in the real discount rate would place a lower value of the cost of future accrual but due to the worsening in funding position, this is likely to be offset by a requirement for an increase in deficit contributions.

There is uncertainty surrounding the future investment returns that will be achieved by the Fund in the coming year as well as other uncertainties around future benefits, relating to the McCloud & Sargeant cases and the ongoing cost cap management process.

Devon County Council have requested that we monitor this funding level on a quarterly basis so we will estimate the funding level again at 30 June 2020 and review the appropriateness of the assumptions used in our funding model.

Melanie Durrant FIA

Principal, Barnett Waddingham LLP

2nd June 2020

Glossary

Actuarial Terms

Actuary

An independent consultant who advises on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and reports to the County Council on the financial position and the recommended employers' contribution rates. This is known as the Actuarial Valuation.

BoE spot inflation curve

A fixed-interest gilt and an otherwise identical index-linked gilt of the same time to maturity will have a different price or yield. This difference in yields indicates the market's expectation of future inflation, or spot inflation, for that particular term. The Bank of England produces an inflation curve which is essentially a best fit of the difference in fixed interest gilts and index linked gilts for terms to maturity of up to 25 years

Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before state retirement age.

Merrill Lynch AA rated corporate bond curve

Corporate bonds are given a credit rating by a credit rating agency which indicates the creditworthiness of the company that has issued the bond. Merrill Lynch produces a yield curve which shows the relationship between the yields on bonds with AA credit ratings against the time to maturity of these bonds.

Non-Vested obligations

If active members remain active rather than become deferred then their liabilities will be higher due to assumed salary increases until retirement. These additional liabilities make up the non-vested obligation.

Promotional scale

This takes into consideration the possibility of promotion during the course of an employees working life.

Retirement age assumption

Active members will retire one year later than they are first able to do so without reduction – One year after minimum retirement age

Solvency Test

An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

S3PA tables

The S3PA tables are published by the Actuarial Profession's Continuous Mortality Investigation ("CMI"). These tables are based on studies of mortality for members of large self-administered pension schemes over the period 2009 to 2016.

Vested obligations

Vested obligations are liabilities in respect of deferred and pensioner members. It also includes part of the liability for active members. This part is calculated by assuming that active members become deferred immediately and as such does not take into account future salary increases.

Derivatives

Financial contracts whose value is tied to an underlying asset. Derivatives include futures, options and swaps.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on a recognised Stock Exchange in the meantime.

Index Future

An obligation to make or take delivery of a specified quantity of an underlying Stock/Index at a particular time in the future, at a price agreed when the contract is taken out.

Index (Stock Market)

The movements in a Stock Market are monitored continuously by means of an Index made up of the current prices of a representative sample of stocks.

Indexation

Also known as Index Matching or Index Tracking. Indexation is a statistical technique used to construct a portfolio of shares that will consistently move in line with a particular Index.

Managed Fund

A multi-asset pooled fund under which an insurance company offers participation in one or more pooled funds.

Market Value

The price at which an investment can be sold at a given date.

Performance Services

WM Performance services are an independent company used to measure the investment performance of the Fund. They also measure 84 Local Authority sector funds calculating, every quarter, the average returns for the median of all the funds and constituent funds (the weighted average).

Pooled Funds

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region.

Portfolio

A collective term for all the investments held in a fund, market or sector.

Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Transfers to/from Other Schemes

These are sums paid to or received from other pension schemes and relate to the current value of past contributions which transfer with a member when changing employment.

Unrealised Increase/(Decrease) in Market Value

The increase/ (decrease) in market value, since the previous year, of those investments still held at the year end.

Unit Trust

A Pooled Fund in which investors hold units, and where the fund offers new units and is prepared to redeem existing units from holders on a regular basis.

Annual Governance Statement 2019/20

Purpose of Annual Governance Statement

To achieve good governance, a Council must not only take account of the legislative and constitutional arrangements that underpin them but should use all means at its disposal to explain to the community, service users, tax payers and other stakeholders how its governance arrangements work and how the controls it has in place manage risks of failure in delivering its outcomes.

An Annual Governance Statement should therefore provide a meaningful communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style, in line with CIPFA guidance.

The County Council's Annual Governance Statement:

- acknowledges responsibility for ensuring there is a sound system of governance incorporating systems of internal control;
- recognises and assesses the effectiveness of key elements of the governance framework, including joint arrangements where appropriate and the roles of the Council, its Cabinet, Audit and other Committees as appropriate;
- provides an opinion on the level of assurances that the Council's governance arrangements can provide;
- recognises and reflects upon any appropriate action(s) identified or required in earlier Statements and commits to monitoring any action(s) require as part of this Statement.

Scope of Responsibility

Devon County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs to facilitate the effective exercise of its functions and manage risk.

The County Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016). The Annual Governance Statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015.

Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks not being realised - and the impact should they be realised - and to manage them efficiently, effectively and economically.

Satisfactory controls to support statements made in this Annual Governance Statement are essential and in endorsing it the Council's officers confirm that input to systems and processing of transactions is complete for the financial year ended 31 March 2020 and that there were no material or significant delays or backlogs of either input or processes that would result in financial or other records being incomplete.

The Council's financial management arrangements also conform with the CIPFA/SOLACE guidance on the role of the Chief Financial Officer in Local Government (2010), enabling the County Treasurer to operate in line with the 5 principles set out in the 'Application Note Delivering Good Governance in Local Government: A Framework' to operate effectively and perform her core duties demonstrating commitment to good practice in governance and financial management.

The Governance Framework – The Council's Constitution

The Constitution is fundamental to the working of the County Council and transcends the core principles and sub principles of corporate governance in the CIPFA/SOLACE Framework which form the basis of the attached schedule. Many of the structures and processes referred to here are readily available either through the Constitution or in the Council's website.

The Constitution is the Council's Code of Corporate Governance. Framed in accordance with statute and Government guidance, it has evolved in the light of experience and subsequent legislation. It sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is the guarantor of the continuing openness, accountability and integrity of the Council's decision-making processes and sets a series of exacting standards against which the Council's actions can be judged and, if necessary, challenged.

The Constitution is at the heart of the Council's business:

- it allocates power and responsibility within the Council and between it and partner organisations;
- it delegates authority for specific issues to act to the Leader, Committees, Cabinet Members and officers;
- it enables the people of Devon to access information and ask questions or make representations or submit petitions at certain meetings;
- it sets down the procedures by which the people of Devon may give their views on the key decisions which the Council's Cabinet is to take; and
- it regulates and identifies standards for the behaviour of individuals and groups through codes of conduct (including interests, conflicts of interest and whistleblowing), protocols and standing orders.

The Constitution comprises 16 Articles setting out the basic rules governing all aspects of the working of the Council (Part 2) and is then divided up into:

- the elements which define the Council's internal organisation, standing orders, financial regulations, schemes of delegation and terms of reference, procedures covering Cabinet and Scrutiny, Risk Management and Codes of Business and Personal Conduct – for Members and Officers (parts 3-9);
- working practices which supplement these formal rules (Part 10);
- The Framework of Corporate Guidance, which includes other Devon County Council strategies and plans (Part 11).

In formulating its Constitution in 2002, the Council adhered closely throughout to the framework presented in Government's Modular Constitutions for English Local Authorities, enabling it to produce a document which was logical, integrated and accessible to members, officers, citizens and others interested in the way a local authority makes decisions and governs itself and its area. Then and subsequently, wherever legislation permitted local choice, the Council has framed its Constitution to take advantage of the most open and inclusive of the available options.

The Constitution is designed to meet all the necessary statutory requirements for instruments of governance and to include matters traditionally covered by local authority standing orders, financial regulations, schemes of delegation and terms of reference. It also contains the elements necessary to describe the Council's Executive arrangements in a single, coherent document which can be used as a comprehensive point of reference by individuals and organisations both inside and outside the Council. All the familiar elements can be found in the Constitution and the Council has sought to use the model format to create a genuinely accessible and meaningful instrument of governance.

The Council is committed to involving the community in setting its priorities, enabling citizens to raise matters with and convey their concerns to the Council and to considering the needs of all groups in the community and promoting democratic understanding and participation. The Council's Constitution provides that framework and is underpinned by relevant policies and practices through the Council's website (e.g. consultations, feedback, and public participation).

Review of Effectiveness

The County Council's Constitution has been in force since 2002 and is regularly reviewed (by the Council's Procedures and Standards Committees, as appropriate). The Constitution is published on the County Council's website.

Over the last three years there have been, via the Procedures Committee, numerous amendments to the Constitution. These included a change to the Code of Business Conduct; it was proposed that the chart which showed how elements of the code were arranged were updated to remove and/or replace obsolete elements, for example the Financial Standards Manual which now formed part of, and was embedded into, financial regulations on a section by section basis.

A proposal of a parental leave policy for Members of the Council as a means of supporting those with caring and parental responsibilities and also to encourage more individuals from a range of backgrounds to stand for election was approved in April 2019.

Also, in 2019 was a fundamental review of the Scheme of Delegation and then subsequently the sub delegations by Chief Officers and Heads of Service to other officers within their service area.

The County Council must, at least annually, review the effectiveness of its governance framework including systems of internal control. This review of effectiveness is informed by the work of managers within the authority who have a responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

The Council

The Council currently comprises of 60 members, meeting together as the full Council for specific purposes, to decide the Council’s overall policies and set the budget each year. Meetings of the Council and its Committees are normally open to the public. The Council appoints the Leader and Deputy Leader, Scrutiny Committees, the Standards Committee and all other Committees. The Council receives the minutes of committees and has power to vary or refer back decisions which are outside established policy. From time to time it also debates issues of particular relevance or topicality for the County.

The roles and responsibilities of the Council, as well as its Cabinet and non-Cabinet Members are set out more fully in Articles 2 and 4 of the Constitution and in Part 3 (Responsibility for Functions). These have been regularly reviewed and revised since the County Council elections in 2017 and are themselves balanced by the Codes of Personal Conduct set out at Part 6 of the Constitution.

The Cabinet

The Cabinet is the part of the Council responsible for most day-to-day decisions. It is made up of a Leader and Cabinet Members appointed by the Leader from amongst the membership of the Council. When major decisions (key decisions) are to be discussed or made, these are published in the Cabinet's Forward Plan in so far as they can be foreseen.

The Constitution, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, outlines rule 7.0 (General Exception) and rule 8.0 (Special Urgency) procedures for decision making. Rule 7 would need to be applied if it was impracticable to delay a decision which the Cabinet had defined as a key decision until the date fixed for its determination and rule 8, if by virtue of the date by which a decision must be taken Rule 7.0 (general exception) cannot be followed, for example the required notice period (28 days) before the meeting at which the matter is to be considered and also if the matter is to be considered in private.

In both cases, notice of that agreement shall be published at the Council’s offices and alongside the agenda item on the website.

These major (key) decisions will be taken with Council officers present at meetings of the Cabinet which will be open to the public except where personal or confidential information is discussed in line with the Council’s Access to Information Rules (Part 4 of the Constitution). The Cabinet has to make decisions which are in line with the Council’s overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this matter must be referred to the full Council to decide.

The Scrutiny Function

Scrutiny supports the work of the Cabinet and the Council as a whole. Scrutiny looks at the effectiveness of the Council's own policies and those of the NHS and inquire into matters of local concern. These investigations lead to reports and recommendations which advise the Cabinet and the Council on its policies, budget and service provision. Scrutiny Committees also monitor the Cabinet’s decisions. They may "call-in" a decision which has been made by the Cabinet but not yet implemented. This enables them to consider whether the decision is appropriate, and they may recommend that the Cabinet reconsiders it. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy or service delivery. Scrutiny has an important role in ensuring that the voice of the people of Devon are heard in policy development and delivery.

The Health and Adult Care Scrutiny Committee has responsibilities conferred by the Local Authority (Public Health, Health and Wellbeing Boards and Health Scrutiny) Regulations 2013 for scrutiny of any matter relating to the planning, provision and operation of the health service in Devon and the requirement to independently review and comment on Health Providers Quality Accounts. This includes the delegated responsibility for a referral to the Secretary of State for Health on exceptional changes where they are deemed not in the best interests of the people of Devon. The powers also include the monitoring of the function and activity of the Devon Health & Wellbeing Board and its statutory responsibilities for the Joint Health & Wellbeing Strategy, the Joint Strategic Needs Assessment and the Pharmaceutical Needs Assessment.

This year also saw the much-anticipated publication of the Statutory Scrutiny Guidance on the 7th May 2019. Devon gave evidence into the original Select Committee consideration and had input to the drafting of the statutory guidance. The Devon Scrutiny Symposium was held in time for the findings to be sent to MHCLG in their compilation of evidence and final conclusions. Whilst Scrutiny at Devon is well regarded, the publication of this guidance offered the opportunity to review of current practice and be even more ambitious in the pursuit of quality scrutiny. The substance of the guidance was analysed against current practice at Devon County Council and presented to the Chairs and Vice Chairs group and Procedures Committee from which an action plan was developed to ensure that Devon Scrutiny was compliant and as effective as possible. The Chairs and Vice Chairs group continues to monitor the action plan, The substantive points are as follows:

- Continue to embed a strong culture in support of Scrutiny
- Promote the value and impact of scrutiny
- Planning work for maximum impact
- Quality evidence gathering sessions to inform Policy Development

Following the 2017 Elections, it was resolved that three Scrutiny Committees (Children's / Health & Adult Care / Corporate Infrastructure and Regulatory Services) would replace the former Place / People's / Health & Wellbeing / Corporate Services Scrutiny Committees. The Scrutiny Budget process was also reviewed, and the Council agreed that the Joint Budget Scrutiny Meeting be no longer held, but the Corporate Infrastructure and Regulatory Services Scrutiny Committee undertaking its overview function in this regard.

Scrutiny Committees aim to operate in a non-partisan, critical friend way which it is believed has served both the electorate and the Council well, in line with the Constitution and the Council's protocol governing relationships between the Cabinet and Scrutiny Committees. Members of the Council may place items on the agenda of any Scrutiny Committee, a right which has always effectively existed in the Constitution since it was first adopted in 2002, reflecting the requirements of the Local Government & Public Involvement in Health Act and its definition of 'any Local Government matter'.

It is widely acknowledged that, to be effective, call-ins must be used only in exceptional circumstances, sparingly and appropriately. In the year in question there were no call-ins.

Reflecting the Council's approach to the commissioning of services, Scrutiny continues to exercise influence through asking questions about delivery mechanisms, quality, monitoring, safety and responsiveness as an appreciative inquiry where problems are analysed and understood as a precursor to improvement and change rather than punitive action. To strengthen Scrutiny engagement in commissioning processes and commissioned services, the Scrutiny Commissioning Liaison Members continue to review planned commissioning activity, and undertake individual investigations where appropriate, reporting back to Scrutiny Committees to inform their work programme.

Scrutiny activity over the last year has continued apace with a variety of reviews. Community concerns around local policing have been seen with the work undertaken on the Impact of Changes to Local Policing Spotlight Review. Four task groups have been held to respond to, pressures on Carers, Special Guardianships, EHCPs and highways concerns on speed. Concerns around Food Waste were also addressed in a Spotlight Review. Health and Adult Care Scrutiny has through the last year had a key role influencing the emerging Integrated Care System and the development of a Long-Term Plan for Devon. Many Councillors have also taken part in the comprehensive programme of visits to frontline services, furthering their understanding and improving the quality of critical friend questioning.

The work of Devon Scrutiny has been held up as best practice amongst peers on several occasions. This includes the Head of Scrutiny being invited to speak to the Annual Centre for Public Scrutiny Conference and the Chair of the CIRS Scrutiny Committee speaking to an LGA conference on the Scrutiny work undertaken on problem gambling. Numerous lobbying activities have taken place to Government including:

- writing to the Under Secretary for Sport encouraging him to do more to tackle problem gambling including giving more funds to public health.
- Tackling the Government on its approach to Covid-19 and support for adult social care
- Request fairer funding for Devon's schools
- Speeding up legal provision for special guardians

The Cabinet and Leadership Team remain appreciative of the work undertaken by the Scrutiny Committees and acknowledge that it has made a major contribution to the work of the Council, especially in areas where detailed objective research and analysis needed to be done. A summary of the impact of Scrutiny during the year is presented to the County Council yearly in an Annual Scrutiny Report.

Organisational Performance

The impact of the Government's reform of the public realm and local government finances continues to influence the Council's current and future performance.

In February 2020, it was resolved that the Council sign the Prevention Concordat for better mental health and recognises and commits to support The Every Mind Matters campaign.

The Council has continued upon a 'purposeful systems' transformation approach, Doing What Matters.

The Council also agreed the following significant actions, specific policy changes or revised strategic objectives during 2019/20 which will impact on future performance:

- the Treasury Management Strategy 2020/21 - 2022/23 and Prudential Indicators 2020/21 - 2024/25;
- Devon County Council's Updated Corporate Energy and Carbon Strategy which declares Devon County Council will be carbon neutral by 2030;
- the Admission & Education Transport Policies for 2019-20 and 2020-21;
- the Medium Term Financial Strategy 2020/21 - 2023/24;
- approval of the 2020/21 Flood Risk Management Action Plan; and
- Capital Programme 2020/2021 to 2024/25.

The Standards Committee

The Standards Committee continued to exercise its role in monitoring complaints and standards. The Committee acts as champion (and guardian) of the Council's ethical standards and is responsible for promoting / maintaining high standards of conduct by both elected and co-opted Members of the Council. At the heart of the Committee's work are the Nolan principles of public life.

The Standards Committee met 4 times in 2019/20 and its work during the year is set out more fully in its Annual Report. A total of 7 complaints were received under the Members Code of Conduct alleging breaches of the Code. There was 1 case where a formal investigation was required. For this case, the outcome was heard by the Committee in July 2019, who determined there had been a breach of the Code of Conduct in relation to 4(a) and 5(h), but not 5(c) of the Code of Conduct. The Committee agreed sanctions that the Subject Member issue a formal and robust apology to the complainants, that training be organised focusing particularly on anger management and the use and knowledge of Council processes and that the Subject Member did not participate in the Council's Spotlight Review until such times that the agreed actions had been undertaken.

Efficient, effective and ethical governance protects the public interest and the Council itself. Members and Officers are supported by a wide range of polices and Codes of Practice enunciated in the Council's Constitution and also by a wide range of training opportunities tailored to meet their needs. The Council's Governance Framework is reviewed annually and any issues for the future governance of the Council are highlighted and addressed at that time.

Co-opted Members of the Committee continue to attend other meetings of the Council, Cabinet and other Committees, selected at random, to monitor and observe compliance with the Council's Governance Framework and behaviours, reporting back to the Standards Committee. There were no reports of any specific actions or behaviours that might be felt to have resulted in a potential breach of the Code or warranted further action.

All Devon County Councillors have now undergone the Disclosure and Barring Service check process and a list is published on the website as agreed by the Council following a recommendation from the Audit Committee.

Members also determined that an amendment be made to the Councillor complaints process to ensure that a subject member (who had a complaint made against them and the matter proceeded to a full investigation) had the right to see both the draft report and the final report and the opportunity to comment and their feedback be presented to the Standards Committee.

The Committee considered the Report 'Local Government Ethical Standards - A Review by the Committee in Public Life' and had previously submitted a response to the Consultation. A number of the recommendations (26 in total) involved legislative change which would be a matter for Government to implement.

The Committee considered the results of a fourth Ethical Governance Survey. The majority of responses to each question were positive. The Committee also welcomed the qualitative responses received which again appeared to give reassurance in terms of good standards of Governance.

The Committee will also consider a draft of the proposed new Model Code of Conduct, submitting any comments to the Local Government Association. The new Code is eagerly awaited, as it will be the first redraft of the current Code for a number of years.

The Audit Committee / Devon Audit Partnership

The Council's Audit Committee monitors the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources including the work of the Council's Internal Audit team and the External Auditor and the application of the Council's Risk Management policy.

The Audit Committee continues to review separately, and on a regular basis, progress with and implementation of any recommendations made in Audit Reports into specific areas of activity to ensure they have been adhered to and appropriate management action taken. It also reviews the Council's Risk Management Strategy and Registers on a regular basis.

The Devon Audit Partnership was established by the Council in conjunction with Plymouth City and Torbay Councils in 2009 to provide shared internal audit services (as a means of improving services through joint working and maximising efficiencies and economies of scale). Mid Devon District Council and Torridge District Council have subsequently joined the Partnership. South Hams District Council and West Devon Borough Council have subsequently become non-voting partners of the Partnership. In November 2019 it was agreed that North Devon District Council would become a member of the Partnership from 1 April 2020.

The Devon Audit Partnership currently undertakes audit work for a number of District Councils, Devon and Somerset Fire and Rescue Service, Devon and Cornwall Police, the University of Plymouth and many other public authorities and plans to continue expanding on their work with external partners. The Partnership and democratic arrangements are functioning well and will continue to be reviewed.

The Investment and Pension Fund Committee

Accounting arrangements require separate accounts to be prepared for the County Council and the Devon Pension Fund. Recognising the need for clear governance arrangements for managing these accounts the Council's Investment & Pension Fund Committee undertakes the role of reviewing and approving the Pension Fund Annual Report, which incorporates the Statement of Accounts. The Devon County Council Audit Committee undertakes the role to review and approve the accounts of the Devon Pension Fund to ensure appropriate accounting policies were introduced in the same way as it is responsible for monitoring and approving the Council's main accounts.

Devon Pension Board

The Pension Board, which was established in 2015/16, is required to ensure that the Devon Pension Fund is managed and administered effectively and efficiently and to ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Devon Pension Board (comprising employer and fund representatives with an independent member) has met six times in total and twice in the past financial year. The operation of the Board will be kept under review.

A summary of the Board's activities and deliberations over the period in question had been included in the Devon Pension Fund's Annual Report and Accounts 2018/19 (and the action taken by the Fund/Fund Manager as a consequence) in scrutinising and satisfying itself with the operation and management of the Fund during that period.

Engagement and Participation

The County Council has always prided itself on the work it does, over and above statutory consultations, to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council. Examples of this are the Council's Communications Strategy, the Devon Voice (Residents Panel), Devon Parent Carers Voice, and the Tough Choices events held by the Leader of the Council across the County as part of a wider exercise by the County Council to consult and involve local people in determining the Council's budgets and priorities. The Have your say consultation pages allow views to be gathered on service specific proposals and provide opportunity for local people to shape their local services.

Public Participation

Those who live and work in Devon have a number of direct opportunities to participate in the Council's decision-making process which are explained in more detail in the Access to Information Procedure Rules in Part 4 of the Council's Constitution and in addition to being available to attend meetings and lobby Councillors in the normal way may also ask questions at meetings of the County Council or the Cabinet and make representations at the County Council and a number of other Committees of the Council, including Scrutiny Committees.

Governance Issues

The COVID-19 Pandemic has created an unprecedented situation for the County Council and is having a huge impact on its residents, communities and local businesses. Of most immediate concern is the impact on the elderly and most vulnerable. In order to respond effectively to the rapidly changing situation, a Pandemic Incident Management Team has been set up, which includes representation from across the Council, including Public Health, Social Care, Emergency Planning and the Economy team.

Much of the Council's staff are now working from home. It has become more important than ever that the technology available must be embraced and alternative ways to carry on DCC business must be used.

Both the Cabinet, Scrutiny and other important council meetings are to be managed using video conferencing technology, in line with the recently issued Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

In January 2020, the Council's Children's Services were judged inadequate by Ofsted, the report was published in March 2020. A DfE appointed Commissioner came into place in June, and reported back to the Minister, Vicky Ford, in September. Vicky Ford wrote to the Leader of the Council in October, acknowledging the good progress the Council has made and agreeing all of the Commissioner's recommendations, which included lighter touch Commissioner oversight for the next 6 months to secure the smooth transition of leadership in Children's Services. An Improvement Partnership, with an independent chair has been convened to oversee the delivery of the Council's Improvement Plan and will remain in place until the Council secures an improved Ofsted grading at re-inspection.

In 2019/20 the Council set the Revenue Budget for 2020/21, the Medium Term Financial Strategy to 2023/24 and the Capital Strategy 2020/21 to 2024/25, including an assessment of the adequacy of reserves, a range of prudential indicators concerning the financial implications of the capital programme and an impact assessment that identified risks associated with the budget strategy, together with how the risks would be managed.

The challenging financial situation justifies the continuing focus on treasury management practices. The County Council's treasury management practices are soundly based on the principle that when balancing risk and return the security and liquidity of an investment is given a higher priority than the yield.

The Council also regularly reviews and updates its Investment Strategy and its Treasury Management Policy and Practices to ensure that they reflect best practice guidance as issued by CIPFA. The Treasury Management Stewardship Annual Report for 2018/19 had not identified any issues to highlight. No new long-term borrowing was undertaken during 2019/20 and it was not envisaged that any new long-term borrowing will be required over the next three-year period but this will be reviewed annually. The report confirmed that investment income targets had been achieved and all lending had been carried out in accordance with the Council's Treasury Management Strategy.

Conclusion

The preparation of the Budget for 2020/21 had been set by the detailed assessment of the risks associated with each budget and the goals and objectives of the Council. The Cabinet was assured that the Budget was an effective and balanced Budget which could be commended to the Council. The increased Revenue Spending Targets for 2020/21 now totalled £541.2 millions which represented an increase of £11.3 millions on the December Targets and an increase of £43.1 millions or 8.7% on 2019/20.

It must be noted that the COVID-19 Pandemic has created a level of uncertainty on the Council’s budget. It is difficult at this stage to determine the impact this will have across DCC’s business and the wider economy.

There are significant additional costs and risks associated with the Council's inadequate grading for Children's Services.

After 9 years of reductions in Government funding, core funding is increased by 1.6% (CPI inflation). Furthermore, there is an additional £14 million of Government funding for Social Care and the Adult Social Care Precept has extended to a further 2% available in 2020/21.

2020/21 was hoped to be the first year of a new multi-year settlement that would contain the outcome of the Fairer Funding Review, the Business Rates reset and 75% or 100% Business Rates Retention, but this has not happened and due to the COVID-19 pandemic this is unlikely to happen in the near future.

The target budget for Adult Care & Health had increased by £7.7 millions, for Children’s Services an increase of £2.5 million. The increased Targets also included £60,000 for additional legal support within Corporate Services and £1 million within Highways, Infrastructure and Waste to help with drainage issues on the Highway network.

The Council’s Leadership Team (Chief Officers and Heads of Service) has confirmed that the organisational, financial, compliance and operational key controls referred to in the Annual Governance Statement and the accompanying schedule continue to be appropriate and that statements of internal control supported the content of this Statement; having operated, effectively, during the financial year. Sundry issues identified in the AGS will be relevant and actioned as appropriate over the coming year. All necessary monitoring and/or implementation of key issues identified in the previous AGS have been, or are continuing to be, addressed.

The Council is satisfied that the governance arrangements can and do provide a high level of assurance, that the arrangements continue to be regarded as fit for purpose and that its governance structures reflect the core and sub-principles of the Statement.

The Council formally places on record and expresses its appreciation to all staff and partners for their continuing commitment to the delivery of high quality services for the people of Devon throughout this period. The spirit and ethos of good governance cannot be achieved by rules and procedures alone. It is vital that shared values that are integrated into the culture of an organisation and are reflected in behaviour and policy, as a hallmark of good governance.

Certification

In light of the aforementioned and the reviews of the effectiveness of the governance framework undertaken by the Cabinet, the Standards Committee, the Audit Committee, the Investment & Pension Fund Committee and by Scrutiny Committees and the plans, as summarised above, to address weaknesses and ensure continuous improvement of systems is in place, we will, over the coming year, continue to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Councillor John Mathews

Chair of the Audit Committee, on behalf of Devon County Council

Phil Norrey

Chief Executive, on behalf of Devon County Council,

26th November 2020.

Audit Committee
26th November 2020
CT/20/92

2020/21 Internal Audit Plan (Revised)

Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee agrees the revised Internal Audit Plan for the year 2020/21

1. One of the responsibilities of the Committee is for "focusing audit resources, by agreeing the audit plans and monitoring delivery of the audit service". The revised programme of internal audit work for the financial year 2020/21, as impacted by the Covid 19 Pandemic, is described in detail in the attached document.

2. The key objectives of Internal Audit in the plans are:
- to provide assurance to the County Treasurer (as the Section 151 "responsible officer"), Audit Committee and to other directors and members, on the adequacy and security of those systems on which the County Council relies for its internal control (the "control environment");
- to provide advice and assurance to managers and staff within the client directorates.

3. The risk-based audit work planned for 2020/21 is linked through the corporate and service risk registers to risks related to the achievement of the Council's strategic objectives, as defined in the Strategic Plan.

4. Delivery of the Internal Audit Service is by the Devon Audit Partnership, a shared services arrangement between Devon County Council, Plymouth City, Torbay Council. Mid Devon District Council, Torridge District Council, North Devon District Council, and South Hams and West Devon Councils.

5. A future meeting of this Committee will receive the Annual Internal Audit Report summarising performance against the plan and key findings from reviews.

Mary Davis

Electoral Divisions: All
Local Government Act 1972

Contact for Enquiries: Robert Hutchins
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Background Paper	Date	File Ref
Nil		

There are no equality issues associated with this report

devon audit partnership

Internal Audit

Revised Internal Audit Plan 2020/21 (reflecting the impact of Covid 19)

Devon County Council
Audit Committee

November 2020

Not Protectively Marked

Robert Hutchins
Head of Audit Partnership

Auditing for achievement

CUSTOMER SERVICE EXCELLENCE

Devon Audit Partnership	Confidentiality and Disclosure Clause
The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon and Torridge councils. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards. The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk .	This report is protectively marked in accordance with the government security classifications. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies. This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

Introduction

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a ‘Board’ and of ‘senior management’. For the purposes of the internal audit activity within the Council the role of the Board within the Standards is taken by the Council’s Audit Committee and senior management is the Council’s Leadership Group. The Audit Committee, under its Terms of Reference contained in the Council’s Constitution, is required to consider the Internal Audit Plan to provide assurance to support the governance framework (see Appendix 2).

An audit plan for 2020/21 was prepared and presented to Leadership Group (LG8) and Audit Committee, representing the proposed internal audit activity for the year and an outline scope of coverage. It was stated that the plan would need to remain flexible and any changes would be agreed formally with management and reported to Audit Committee.

Pandemic Impact Update

Since the start of the financial year, the Covid pandemic has had an impact on the internal audit team, and the internal audit plan. During the crisis response phase internal audit staff were supporting the Council in key operations, with internal audit work put on hold. In addition, some DAP staff were shielded / sick due to Covid and this impacted upon our resources. Since April we have worked hard to return our audit work to near normality by use of mobile working, but the early stages of this did result in some less productive time.

Work has continued in completing internal audit assurance mapping work and we are now delivering audits in the 2020/21 audit plans via a remote working approach. The team have been working hard to undertake audit work, provide support and guidance as the Council responds to the new threats and challenges that Covid has brought, and to ensure that we can provide an assurance opinion to senior management and audit committee members.

We would normally expect to complete one half of the agreed plan by end of September; however completion in this first half of the year has been impacted by the pandemic (see above) and therefore it is now necessary to reflect this in a revised plan for the remainder of the year. A similar revision / reduction in audit plan has been proposed to, and agreed by, the DAP Management Board comprising the Section 151 officer for each of our Partners, and so each Partner of DAP will be similarly affected. This reduction is regretted, but it is necessary to enable available resources to be properly targeted in the right areas.

The proposed revision considers the potential resources available for the second half and 2020/21 and the priority of the work remaining; as such some service areas have seen smaller/greater change in proposed coverage. All audit work that has been removed from the 2020/21 internal audit plan will be considered as part of the planning process for 2021/22, including where further revisions are necessary due to the ongoing pandemic.

Robert Hutchins
Head of Audit Partnership

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Thematic Overview of Audit Coverage

Service Area Overview of Audit Coverage

Adult Care & Health	Children's Services	Communities, Public Health, Environment & Prosperity (CoPHEP)	Highways, Infrastructure Development and Waste	Major Projects / Themes	Value Added
DP Follow Up CHC Follow Up Autism Market Sufficiency Workforce – Independent Sector Provider Information Management System Revised Arrangements – personal Care Supported Living	Care Proceedings Follow-up Spend in Schools – Premises Care Commissioning – Contract and Performance Management Services for Disabled Children Data Quality Eclipse - Phase 2	Post 16 Transitions Governance of the Safety Camera Partnership Active Devon A382 Improvement Project	Streetlighting System Viridor End of year Sign Off Skanska Annual reconciliation	Finest Replacement Climate Change 3rd Party Risk	Fraud Prevention and Investigation National Fraud Initiative Advice Audit Follow Up

Core Assurance

- Business Processes & Governance – Payroll & HR functions, Procurement, Grant Certification, Transitions (Financial), Audit Assurance Planning & Reporting, and other Related Bodies.
- Key Financial Systems (Material Systems) - Bank Reconciliation, Creditors, Debtors, Finest System Admin, Fixed Asset Register, Income Collection, Main Accounting System, Payroll, Treasury Management.
- ICT – Change Management, Cyber Security, Incident & Problem Management

The elements proposed for audit for the coming year are those identified through risk assessment and discussion with Senior Management. This overview is supported by the proposed audit reviews and associated risks.

High Level Audit Plan 2020/21 (Inc Revisions)

This table shows a summary of planned audit coverage for the year.

It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority: in this instance due to the impact of the Covid 19 Pandemic.

The revised capacity for the second half of 2020/21 is planned as 545 Days.

As always, a detailed Terms of Reference will be drawn up and agreed with management prior to the start of each assignment. In this way we can ensure that the key risks to the operation or function are considered during our review.

The table on the following pages gives a brief overview of the focus of proposed audit coverage for the remainder of the year.

This may be subject to further change should Service areas be unable to support the proposed levels of review due to possible 'Second Wave' activities.

Core Activity for Internal Audit Review	Original full year plan - Coverage in Days	Coverage for the six months Oct 2020 to March 2021
Material Systems	119	92
Corporate Services - (Excluding Anti-Fraud & NFI)	120	45
Adult Care and Health	176	79
Children's Services	150	70
Communities, Public Health, Environment and Prosperity (CoPHEP)	75	34
Digital Transformation and Business Support	127	75
Highways, Infrastructure Development and Waste	60	25
Grant Certification	83	40
Anti-Fraud and Corruption including NFI (*Supported by pre agreed Corporate Fraud Team Funding)	100	50*
Other Chargeable Activities including: COVID Learning Exercise, support for Audit Committee, audit development.	50	35
Total internal audit plan for Devon County Council	**1060**	**545***
Schools (estimated)	282	141

Quarter 3 – Activity Summary

In addition to multiple Grant Certification activities we have commenced elements of the 2020/21 planned reviews. Specific examples of the work underway are, COVID Learning Support Activities (inc Debrief and Financial Decisions reviews), Treasury Management, Payroll, Autism, School Building Maintenance Spend, Streetlighting, Safety Camera Partnership, ICT Change Management, Follow Up of 2019/20 reviews where the overall assurance rating was as lower than "Good Standard", as well as supporting ongoing NFI Activity.

Furthermore, audits planned for quarter three, or those in the process of being scoped, include: - Procurement Governance, Creditors, Fixed Asset Register, Debtors, Children's Services Data Quality, Active Devon and ICT Disaster Recovery. We have finalised reports linked to ICT Incident and Problem Management, as well as work linked to Care Home Voids and Payroll Academy Reporting, whilst providing ongoing support to Covid Learning activities, and organisational debriefing of the COVID response.

Revised proposed audit reviews and associated risks 2020/21

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)
Material Systems			
Core Assurance - Key Financial System *			
Payroll	ANA - High	* A rolling programme of audits is adopted for material systems whereby the work programme for each year may differ, with each audit having varying amounts of system review, testing or a combination of the two. This approach enables us to deliver a more cost-effective service, whilst providing sufficient assurance as to the adequacy of the Authority's material system control environment.	Sample testing
Debtors / Debt Recovery	ANA - Medium		Sample
Bank Reconciliation	ANA - Medium		Walkthrough
Finest System administration	ANA - Low		Sample
Creditors	ANA - Medium		Walkthrough
Fixed Asset Register	ANA - Low		Walkthrough
Income Collection	ANA - Medium		Sample
Treasury Management	ANA - Low		Walkthrough
Main Accounting System	ANA - Medium		Sample testing
KFS Key ICT Controls 20/21	ANA - Medium	To provide assurance that core ICT functions in relation to Key Financial Systems are completed. Established work programme (that requires adaption / update to accommodate externally hosted systems). Finance key client contact, and SCOMIS/ICT provide the support along with external providers (Council Contacts - Contract-Performance Monitoring) for some systems.	

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope Proposed Timings (Quarter)
Corporate		
HR iTrent Development - Performance Learning and Development Module	ANA - High	Trusted Advisor support to new systems process
Direct Payments - CFCS	ANA – Medium	Review of Charging for Care Services (CFCS) processes for Direct Payment financial assessments.
Finance System Replacement	ANA – High	Assurance and Trusted Advisor Support – Finance Replacement Project.
Advice, planning, monitoring and performance reporting	N/A	-
Adult Care and Health		
Revised Arrangements around personal care	ANA High Client Request	Second part of a review carried out in 2019/20. Audit to look at the impact that the insourcing of services in 2019 has had after six months.
Provider Information Management System	ANA Low Client Request	Risk based system review.
Autism	ANA Medium Client Request	Impact of changes to the post diagnostic autism team.
How is the Council meeting its market sufficiency requirements	ANA High Client Request	Review of the council's approach and ability to meet its statutory obligations in respect of care market sufficiency.
Adult, Children & Finance		
Transitions (Financial)	ANA Medium Client Request	Review of processes linked to the transition of financial support.
Children's Services		
Children's Social Care		
Services for Disabled Children	ANA – High	Sampling of the Care Assessments with this area with a focus on application of consistency of the support put into place.

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope Proposed Timings (Quarter)
Care Commissioning – Contract and Performance Management	ANA – Medium	Review of contract performance monitoring and management to supplement the work planned to assess identification of need.
Education and Learning		
SEND - School Spend	ANA High	Identify spend of funding in school returns to compare against the allocation.
School Buildings	ANA - Low Client Request	Money to maintain school buildings has for some time been delegated to the schools. To pick up alongside Health and Safety, closer monitoring of this spend, without excessive interference.
Advice, planning, monitoring and performance reporting	N/A	-
Communities, Public Health, Environment and Prosperity (CoPHEP)		
Governance of the Safety Camera Partnership	ANA – Low Client Request	Ongoing support and advice linked to governance and organisation, accountability to relevant authorities, sustainability and longevity.
A382 Improvement Project	ANA – Medium Client Request	Project to be undertaken later in year and will require gateway and assurance review(s) at a given point.
Active Devon	ANA - Low Client Request	Review of the arrangements for Active Devon with a view to learning where the success of this model can be used elsewhere.
Advice, planning, monitoring and performance reporting	N/A	-
Digital Transformation and Business Support		
ICT - Change Management	ANA - Medium	To provide assurance that changes to information systems and related infrastructure are done in such a way as to meet the needs of the business and have a minimal risk to the business and the information.
ICT - Incident and Problem Management	ANA - Medium	To Provide assurance that ICT Incidents and Problems are managed effectively, noting that a new call management system is being introduced.
ICT - Cyber / Network Security (Inc Follow up of 18/19 and 19/20 Audits)	ANA – Medium	To provide assurance that the Council network is secure following the Cyber Essentials methodology. Areas for review include - Firewalls, Secure Configuration, Access Control, Antivirus and Malware, Patching, Plus Back Ups.

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope Proposed Timings (Quarter)
Procurement – Covid	ANA – Medium Client Request	Review of procurement activity in light of the increased funding spent in a reduced framework of controls.
Advice, planning, monitoring and performance reporting	N/A	-
Highways, Infrastructure Development and Waste		
Street Lighting	ANA – High	Confirmation that the new system is now compliant with Financial Regulations, to include a full system review, documentation and review of controls.
Viridor End of Year sign off	ANA – Medium Client Request	Support to agreement or otherwise of the annual financial sign off.
Skanska- Annual Reconciliation	ANA – High Client Request	Support to agreement or otherwise of the annual financial sign of.
Advice, planning, monitoring and performance reporting	N/A	-
Grants		
Grant Certification/Sign Off	Client Request	We anticipate at least 10 Grants will need to be reviewed and certified during the 2020/21. financial year.
Troubled Families Grant Certification	Client Request	Monthly Certification for each month of the Financial year.
Advice, Planning and Support	N/A	-
Fraud and Irregularities		
NFI and In Year Advice, Support and Investigations	ANA – High	Advice, support and investigation activities as well as support to the NFI process. To be supported by an additional programme of Counter Fraud Work.
Follow UP Work		
Direct Payments	Follow Up Review	Original Audit was Improvements Required.
Continuing Health Care	Follow Up Review	Original Audit was Improvements Required.

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope Proposed Timings (Quarter)
ScoMIS Contract Management (Follow Up)	Follow Up Review	Improvements Required in 2018/19 and the 2019/10 Follow Up review.
Carefirst OLM (Follow Up)	Follow Up Review	Improvements Required in 2018/19 and the 2019/10 Follow Up review.
Adoption and Change (Follow Up)	Follow Up Review	Improvements Required in 2018/19 and the 2019/10 Follow Up review.
GDPR Follow Up	Follow Up Review	Original Audit was Improvements Required.
Care Proceedings	Follow Up Review	Original Audit was Improvements Required.
Follow Up of High Risks Recommendations	ANA – High	To confirm how recommendations are being addressed where they are not part of an audit report rated Improvements Required or Fundamental Weaknesses.

Audits Removed from 2020/21 Plan

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope
Corporate		
Risk Register	ANA - High	Review of individual risks; providing independent view of the clarity and application of controls as well the use and application of the corporate risk management process.
Climate Change	ANA - High	High Level cross organisational review of the Councils approach to climate to include Corporate Climate Strategy, Governance, Intelligence, Resources and Corporate Goals.

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope
Finance - Tax Compliance Forum	ANA – Medium Client Request	Input to Forum and contingency to allow for projects that arise from meetings. Agreed as a result of HMRC visit October 2014 and changes to their auditing of tax.
Adult Care and Health		
Implementation of new Social Care Funding arrangements	ANA - Medium Client Request	Scope of work to be determined as and when new funding arrangements are implemented.
Preparing for implementation of Liberty Protection Safeguards	ANA - High Client Request	Evaluation of the impact of the investment already provided enabling an informed decision to be made as to the next steps.
Eligibility Criteria	ANA High Client Request	Are eligibility criteria and resource allocation applied equally and irrespective of service user group, age, type of disability, illness or condition.
New Care Management Process	ANA High Client Request	Assurance and Trusted Advisor on changes to the processes for care management.
Care First 6 Replacement	ANA High Client Request	Assurance, Trusted Advisor support during the introduction of the new system.
Children's Services		
Children's Social Care		
Preventing Adolescents from Coming into Care / Edge of Care	ANA - Medium Client Request	Review to include small residential units with the possibility of including 'establishment' type audit.
Care Assessment Process	ANA – High	Sampling across social care services of the Care Assessments which are being completed and their capacity to identify true care needs.
Education and Learning		
Alternative Provision Spend (funded From High Needs Block)	ANA – High Client Request	This is funded by High Needs budget but is not part of the 2019/20 SEND audit. Specific focus on Alternative Provision to supplement findings of the 2019/20 audit work.
Early Help	ANA - Medium Client Request	A review ascertaining the costs of Early Help for the authority to sustain for those cases in statutory if Government grant drops out.
Public Health Nursing	ANA – High	New area to the Council from April 2019, specific details to be agreed.
School Buildings	ANA - Low Client Request	Money to maintain school buildings has for some time been delegated to the schools. To pick up alongside Health and Safety, closer monitoring of this spend, without excessive interference.

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope
Communities, Public Health, Environment and Prosperity		
Roundswell Enterprise Centre	ANA – Medium Client Request	This is an ERDF, LEP and Devon County Council funded capital programme (with some revenue funding). Audit of the processes and different spending commitments.
Business Support ERDF funded projects	ANA – Medium Client Request	There are several projects funded through EU funds with public sector match. Some of them span Devon, Plymouth and Torbay, some Somerset, Devon, Plymouth and Torbay. Programme to be audited and supported to ensure it has the right approaches, governance and delivery mechanisms in place.
Make it Local and REAL Devon local Action Groups	ANA – Medium Client Request	These are community-led grant schemes funded by the Rural Payments Agency under the Rural Development Programme for England. Programme to be audited and supported to ensure it has the right approaches, governance and delivery mechanisms in place.
Careers Hub	ANA – Medium Client Request	This is an LEP funded programme via Careers Enterprise Company. Programme to be audited and supported to ensure it has the right approaches, governance and delivery mechanisms in place.
Digital Transformation and Business Support		
ICT - Disaster Recovery	ANA – High	To provide assurance as to the appropriateness of the County's ICT DR plans. (Note – This area is reviewed at a high level as part of the ongoing management of DCC ICT risks. Based on the Risk Profile it is Low Probability, High Impact, but well mitigated. As such deferment of the detailed Audit Review to 2021/22 is low risk).
ICT - Customer Service Centre	ANA – Medium Client Request	To provide assurance that the approach to the operation of the CSC meets the requirements of the business, including any current and proposed changes.
Procurement – Governance	ANA – Medium Client Request	Governance protocols in relation to contract award procedures and contract lifecycle.
Highways, Infrastructure Development and Waste		
Viridor End of Year sign off	ANA – Medium Client Request	Support to agreement or otherwise of the annual financial sign off.
Support for new processes	ANA – High Client Request	Provide support, challenge and assurance to potential changes in processes within the Highways service area.
Tree Management System	ANA – Medium	System review including liaison with the Devon County Council Tree Board.

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope
	Client Request	

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Fraud Prevention and Detection and Internal Audit Governance

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud.

In recognition of the guidance in the Fraud Strategy for Local Government “Fighting Fraud Locally” and the TEICCAF (The European Institute for Combatting Crime and Fraud) publication “Protecting the English Public Purse 2016”. Internal Audit resources will be allocated to allow a focus on identifying and preventing fraud before it happens. Nationally these areas include Procurement, Payroll, Blue Badges, Direct Payments and Pensions. The Authority has separately commissioned the Devon Audit Partnership Counter Fraud Service to undertake a review of the strategy and approach, as well as a targeted review of payment card spend for 2019/20. We anticipate a similar separate plan of work to be agreed in relation to Counter Fraud for 2020/21 in addition to this plan.

The Cabinet Office runs a national data matching exercise (National Fraud Initiative - NFI) every two years. The matches from the 2018/19 exercise were released on 31st January 2019 to those participating in the exercise. We will continue to work with Council departments to ensure that the matches are reviewed, and action taken as may be necessary, this includes supporting where an exercise is completed in 2020/21.

Internal Audit Governance

An element of our work is classified as ‘other chargeable activities’ - this is work that ensures effective and efficient audit services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances, this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include: -

- Preparing the internal audit plan and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. External Audit (Grant Thornton), Audit South West);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during the year;
- On-going development within the Partnership to realise greater efficiencies in the future.

Partnership working with other auditors

We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of “re-inventing the wheel” in new areas of work which have been covered in other authorities.

We have developed sound working arrangements with Grant Thornton, the authority’s external auditors and have regular liaison meetings to understanding their requirements and to provide the information they require, maximising the benefits of close working. We have also developed an effective working relationship with Audit South West (NHS Internal Audit) and anticipate more opportunities to work collaboratively together as integration between the Council and Health develops.

Audit Committee
26th November 2020
CT/20/93

2020/21 Risk Management Update

Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee reviews the Risk Management Report and Power Bi Live Dashboard.

i. that members review the movement of risks during 2020/21;
ii. that members review the changes and updates to the risk management process as supported by Devon Audit Partnership;
iii. that members review the plans for further enhancements to Risk Management arrangements for 2020/21.
iv. that members consider the summary risk position for current risks.

The attached report sets out the current risk position of the Council, updates on changes to risk management arrangements during 2020/21 and confirms the role of the Audit Committee as per the Council's Risk Management Policy. It further explores and summarises the existing risk position via links to visual reporting of risks using the Power BI platform.

Appendix A Shows an extract of the highest scoring risks at the time of writing this report.

Appendix B Provides Impact Scoring guidance.

Appendix C Contains an extract of the Power BI Audit Committee Risk Dashboard.

Mary Davis

Electoral Divisions: All
Local Government Act 1972

Contact for Enquiries: Robert Hutchins
Tel No: (01392) 382437 Larkbeare House

Background Paper	Date	File Ref
Nil		

There are no equality issues associated with this report

devonauditpartnership

Risk Management

CIR Risk Management AWARDS 2020 shortlisted

Risk Management

Update Report 2020/21

November 2020

Devon County Council

Audit Committee

CUSTOMER SERVICE EXCELLENCE

Support, Assurance & Innovation

Introduction and purpose of this report

Devon Audit Partnership (DAP) continues to support and facilitate the development of the Council's Risk Management Framework and Processes. This support is designed to assist members, senior management and staff in identifying risks, recognising and recording the "true" risk, mitigation thereof and to promote the effective monitoring and reporting of those risks. Audit Committee are requested to:

- note the movement of risks during the first half of 2020/21;
- note the current risk position across the Council via the Power BI link;

Changes in 2020/21

Changes since April have resulted in a net increase of 20 risks, in a large part linked to changes relevant to the ongoing Coronavirus Pandemic.

As would be anticipated, underpinning the most recent risk register and risk management activity are three clear drivers: -

- Covid 19:
- EU Transition: and
- The impact of public sector financial restrictions that are likely to occur due to both of the above and compound the current projections for 2021/22.

In anticipation of such pressures Finance colleagues have updated existing risks within the register that are linked to budget pressures; these are expected to increase, moving forward, as a result of the level of government funding committed to the Covid 19 response, and the subsequent messages from the Chancellor outlining a clear desire to "Balance the Books".

The challenging future financial position of the Authority will have an influence on many if not most risks, both existing and those being drafted, as mitigation activities come with some form of resource requirement, be that staff time or finance/funding.

The COVID 19 pandemic has had a clear impact on the operation of the risk management process; information contained with the Risk Register has been restricted by the ability of some officers to undertake the reviews as prescribed by policy.

It has also prompted wider consideration of the risks recorded, including potential gaps that are now present; for example, an exercise is underway with officers from the CoPHEP Service Area, the aim of which is to identify any gaps in the high-level risk's links to current service objectives.

There are now 34 Risks directly referencing COVID 19 within the Risk Register (at Oct 2020), up from nine in June, and 52 Risks which are likely to be impacted in some way as a result of the pandemic (down from 61).

The World Economic Forum published [preliminary mapping of COVID 19 Risks] and Impacts, with Economic risks regarded as the most challenging fallout from the pandemic.

EU Transition - The work undertaken to identify key risks at prior notable deadlines for EU Transition has been updated in light of the December 31st deadline. Risk owners have provided updates and they have been linked into individual risks in the EU Transition Draft Risk Register.

There is ongoing uncertainty around the level of national support that might be required to support EU Transition, which adds the potential for even greater financial restrictions across the public sector, particularly Local Authorities.

We note that on the 16th October 2020 the Prime Minister made a statement advising the UK to prepare for an "Australia" Style relationship, in effect leaving the EU without a trade deal of any kind. This position will increase the score of many EU Transition risks and is subject to change from any further UK EU negotiations. As at 12th November 2020 there was no indication that a deal was ready to be agreed.

devonauditpartnership Risk Management

Devon County Council

Activity within the Adult Health and Care service has resulted in the addition of several risks, examples include: -

- *Lack of capacity and capability to support Emergency Planning;*
- *Inability to sustain financial support arrangements put in place during Covid 19 pandemic response phase;*
- *Judicial review from adult social care providers as a result of Covid 19 related financial decisions; and*
- *Additional financial pressures and savings requirements as a result of national austerity measures post-Covid 19.*

This is in addition to the revision of existing risks such as those linked to market sufficiency and budget pressures in light of potential national budget restrictions.

Risk activity within Children's services has been more focused on the response to the Ofsted Judgement, in particular the resulting improvement plan, and the service has advised that new risks are in the process of being drawn up.

Other risks have also been formulated and / or revised in light of the pandemic such as the increased risk of fraud resulting from the rapid increase pandemic support funds and the escalation of costs for capital projects.

Other notable actions include continued work with service areas and Risk Champions, to further develop and populate other risks for inclusion on the Risk Register, and the occurrence of the annual Corporate Risk Management Group meeting.

<u>Corporate Risk Management Group Annual Meeting – Main Points</u>

❖ The Risk Management Service provided to DCC by DAP was Shortlisted for two awards via CIR Risk Management - the award ceremony is being held virtually in November.

❖ There was constructive challenge of the top-rated risks in respect of consistency of scoring. The corporate scoring guidance and categorisation of risks have helped to add context to the variety of risks with similar scores.

❖ Recognition of the opportunity that the pandemic has bought to take positive action in relation so some risks, such accelerated highway maintenance projects due to the quieter roads.

❖ Agreement to ensure that the Risk Management eLearning module becomes a standard part of the management induction process, and discussion and feedback of the Climate Change Resilience Assessment for use across the Council.

❖ The Group considered the outcome of an audit of specific risks, where key findings included the following improvement:

- Clear improvement in the quality of risk information where Risk Management support was provided.
- Improved risk scoring where the risk was more clearly articulated.

However, it was also reported that: -

- 60% of the risks recorded did not contain the objective which they impacted.
- Limited completion of the field "How control will be measured".
- Use of local risk registers reducing the effectiveness of the corporate system.
- Several cross-service risks, for which scoring is difficult to assess e.g. Climate Change.

The management and reporting of risks during 2020/21 continues to evolve and build on the positive culture of expectation around risk information. This leads to greater interaction and requests for enhancements, further growing levels of reporting, expectation and overall risks management.

Risk Position November 2020

There were 124 risks recorded in the Risk Register as at 14th October 2020 and of these 11 were initially assessed to be Very High. Following the application of mitigating controls by management, the Current Risk Score for 11 was reduced. Overall, there are 34 risks with a Current Score of High and Above.

On occasion risks can have a Current Score which is higher than the initial Inherent score due to changing circumstances: currently this applies to: -

- *Insufficient capacity of the High Needs Block to meet demand* (Children's Services); and
- *Prevention and Detection of Fraud (Covid Related).*

<u>Current Data – Link</u>

Further information on the current position for existing risks can be found using this link to Power BI reporting.

Risk Management through 2020/21

Further consolidation and development of Risk Management activity will continue in 2020/21 building on the progress made to date. Future areas of focus will include:

- ➢ Updating the format of risk wording using the Cause, Event, Impact Model – This will allow easier description and wider understating of risks, along with a greater ability to clearly link the mitigations to the different aspects of each risk.
- ➢ Risk Scoring – Continued work to ensure that there is consistency of risk scoring across all areas, in turn allowing easier comparison and prioritisation of risks and response actions.
- ➢ Risk Appetite – Work with service areas to develop Risk Appetite Statements for the various areas of the Council, in turn supporting consistent approaches and expectations for risk management.
- ➢ Consideration of global, national and regional 'external' risks and their impact on the Council, it's service and population.

Risk management activity in 2020/21 will continue to support the enhancement of a positive risk management culture across the Council.

Background – Policy and Process

The Risk Management Policy includes a description of the Roles and Responsibilities in relation to risk management. In practical terms this results in the submission of Risk Management reports to Members biannually via the Audit Committees, and periodic sharing of risk information to Scrutiny Committees, including where risks cross over different scrutiny functions. To support the reporting to members and to comply with the Risk Management Policy and best practice, Leadership Group are provided with updates throughout the year.

Supporting Appendices

Appendix A – Extract of a Sample of the Highest Rated Risks (Based on Current Risk Score).
Appendix B – DCC Impact Scoring Guide.
Appendix C – Power BI Extract.

Appendix A – Extract of a Sample of the Highest Rated Risks Based on Current Risk Score. (Score of 16 or above)

Risk Title	Linked Service Area	Inherent Rating	Current Rating	Risk Owner	Accountable Officer
COVID - (Combined Score of 16 and Above)					
Covid-19 Pandemic	CoPHEP Council-wide	**30: Very High**	**24: Very High**	Virginia Pearson	Leadership Group
Health and Safety	LSC	**30: Very High**	**16: High**	Simon Bates	Jacky Wilson
Mental Health issues and absence	Council Wide	**18: High**	**15: High**	Kim Traynor	Jacky Wilson
Increases in market pressures for sectors relevant to Devon result in higher failure rate and increased unemployment	CoPHEP - Council-wide	**20: High**	**18: High**	Jamie Evans	Leadership Group
BI21 - Successful Cyber Attack	DT&BS	**30: Very High**	**20: High**	Martin Lawrence	Gary Dempster
Prevention and Detection of Fraud	Council-wide	**18: High**	**20: High**	Ken Johnson	Robert Hutchins
HTM3: Lack of capacity or capability to effectively respond to extreme weather events	HIDW	**24: Very High**	**20: High**	Joe Deasy	Meg Booth
HTM2: Lack of capacity or capability to respond effectively to highway safety related issues	HIDW	**24: Very High**	**20: High**	Joe Deasy	Meg Booth
Insufficient staffing capacity to deliver full Public Health Nursing service offer	Children's Services	**25: Very High**	**20: High**	Julie Wilcockson	Kate Stephens
G11: The council fails to meet its statutory market sufficiency requirement for personal care.	Adult Care and Health	**20: High**	**20: High**		
Other Risks – Current Score is High or above (Only where the combined Score is 16 and Above)					
FIN05 - Failure to Prepare or Control Robust Budget	DFS	**15: High**	**20: High**	Angie Sinclair	Mary Davis
Insufficient capacity of the High Needs Block to meet demand	Children's Services	**20: High**	**24: Very High**	Julia Foster	Dawn Stabb
Demand for Children's Services exceeds the financial provision	Children's Services	**24: Very High**	**16: High**	Rachel Gillott	Jo Olsson
KS9: Demand for adult social care and health for working aged adults (aged 18-64) exceeds financial provision	Adult Care and Health	**20: High**	**20: High**	Gary Patch	Keri Storey
EU transition - The UK's exit from the European Union results in pressures which directly impact the Council's delivery of services	Council Wide	**20: High**	**20: High**	Keri Denton	Leadership Group
Climate Change	CoPHEP	**30: Very High**	**20: High**	Doug Eltham	Dave Black

Devon County Council

Devon County Council

Impact Assessment Guide

	Health & Wellbeing	Service Users	Stakeholders	Reputation	Performance / quality standards	Legal	Financial	Pensions & Investments
1 Negligible	Insignificant impact on public's health and wellbeing. Very small number of the population affected.	Minimal impact or service disruption to customers. Contained within service area.	Affects only 1 group of stakeholders	Minimal and transient loss of public trust. Contained within the individual service area.	No impact on local standards.	No legal action is anticipated.	Under £25,000	Under £100,000
2 Minor	Minor impact on health and wellbeing affecting a small number of the population. Likelihood of fatalities is negligible.	Minor impact to customers and customer. Limited service disruption.	Affects more than 1 group of stakeholders	Slight loss of trust with no lasting impact. Little adverse publicity.	Failure to meet local standards.	Tribunal / DCC legal team involvement required (potential for claim).	£25,000-£100k	£100k - £1m
3 Moderate	Significant impact on health and wellbeing affecting a large number of the population. Fatalities not anticipated.	Moderate impact to customers and customer. Moderate service disruption.	Affect 2-3 groups of stakeholders	Moderate loss of trust that receives significant adverse publicity locally with no lasting impact.	Failure to meet national standards.	Defensible legal action anticipated.	£100k - £1m	£1m - £10m
4 Major	Significant impact on health and wellbeing affecting large number of the population. Fatalities are anticipated.	Significant impact to customers and customer. Threat of legal action	Affects 4-5 groups of stakeholders	Significant loss of trust and receives local media attention with potential for lasting impact.	Failure to meet professional standards / statutory requirements	Criminal prosecution anticipated and or civil litigation (1 person).	£1m - £10m	£10m - £100m
5 Catastrophic	Large impact on health and wellbeing affecting a very large number of the population. Multiple fatalities are anticipated.	Major service disruption. Significant customer opposition. Legal action. Long term public memory	Affects more than 5 groups of stakeholders	Significant loss of trust and receives national media attention with potential for persisting impact.	Sustained failure to meet professional standards or statutory requirements.	Criminal prosecution anticipated and or civil litigation (>1 person).	>£10m	>£100m

1. **Choose the relevant columns and note the closest description of potential impact.**
2. **Then use the score from the most relevant column. For example, if there may be a high financial impact, but the initial impact may be loss of life, choose the Health and Wellbeing Score.**

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See Accompanying PowerPoint document or clink on the version embed below. The [Live link] is also in the body of the report above.

Note – This is a point in time extract, not a reflection of the data as it will be at the time of accessing via PowerBI.

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