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To: The Chair and Members
of the Audit Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 15 September 2023

Contact: Wendy Simpson, 01392 384383

Email: wendy.simpson@devon.gov.uk

AUDIT COMMITTEE

Monday, 25th September, 2023

A meeting of the Audit Committee is to be held on the above date at 2.15 pm at
Committee Suite - County Hall to consider the following matters.

Donna Manson
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for absence

2 Minutes

Minutes of the meeting held on 20 June 2023 (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 Statement of Accounts & Annual Governance Statement 2021/22 (Pages 1 - 16)

Report of the Director of Finance and Public Value (DF/23/89), attached.

- 5 External Audit Plan for Devon County Council 2022/23 (Pages 17 - 42)
External Audit Plan of Grant Thornton, attached.
- 6 External Audit Plan for Devon Pension Fund 2022/23 (Pages 43 - 64)
External Audit Plan of Grant Thornton, attached.
- 7 Devon County Council Internal Control Environment (Pages 65 - 138)
Report of the Director of Finance and Public Value (DF/23/88), attached.
- 8 Statement of Accounts and Annual Governance Statement 2022/23 (Pages 139 - 372)
Report of the Director of Finance and Public Value (DF/23/87), attached.
- 9 Internal Audit Update (Pages 373 - 396)
Report of the Director of Finance and Public Value (DF/23/90), attached.
- 10 Risk Management Update (Pages 397 - 410)
Report of the Director of Finance and Public Value (DF/23/91), attached.
- 11 Counter Fraud Update (Pages 411 - 420)
Report of the Director of Finance and Public Value (DF/23/92), attached.
- 12 Future Meetings

Please use link below for County Council Calendar of Meetings:

<http://democracy.devon.gov.uk/ieListMeetings.aspx?CId=161&Year=0>

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

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Induction Loop available



Audit Committee
25 September 2023
DF/23/89

Statement of Accounts & Annual Governance Statement for 2021/22 Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to:

1. Review and approve the changes to the Authority's Statement of Accounts for 2021/22; and
2. Review and approve the changes to the Pension Fund Statement of Accounts for 2021/22.

2) Introduction

The purpose of this report is to ask Members to approve the changes to the Authority's Statement of Accounts for 2021/22.

The Audit Committee approved the 2021/22 Statement of Accounts in November 2022. CIPFA updated the Code of Practice on Local Authority Accounting following the Statutory Instrument on accounting for infrastructure in December 2022. Revised pages for infrastructure (2020/21 and 2021/22) were tabled and approved at the Audit Committee in February 2023.

At the meeting with the Director of Finance and Public Value on 11th September, the engagement lead for Grant Thornton confirmed that she will issue an unqualified opinion on the 2020/21 accounts this month. There are no changes to the version that had already been approved by the Audit Committee in February.

External audit also requested that the changes to the 2021/22 Statement of Accounts outlined at the last meeting of the Audit Committee on 20th June be approved by the Audit Committee.

In the Report DF/23/57 to the last meeting of the Audit Committee on 20th June, Members were informed of a national issue regarding the lateness of audit opinions and the impact of the triennial valuation of the Pension Fund at 31 March 2022.

In April the Authority had commissioned a revised actuarial report which concluded that the revised net liability on the Pension Fund at 31 March 2022 has reduced by £271 million – (updated estimates for the same date).

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The amended pages for 2021/22 have been attached to this Committee report. Two printed versions of the 2021/22 Statement of Accounts will be available to Members at the Audit Committee meeting. The 2021/22 Statement of Accounts is also available on the website.

<https://www.devon.gov.uk/finance-and-budget/audit-and-inspection/>
[Audit and inspection | Devon County Council | Devon County Council](#)

3) Key messages – Authority’s Accounts

The following paragraphs represent the revision to Note 7 – Events after the Reporting Period. There is no impact on the Council’s Outturn, General Fund or Usable Reserves, or any impact on future funding of services.

Revisions to Note 7 – Events after the Reporting Period

The Audit Committee approved the Statement of Accounts at its meetings on 29 November 2022 and re-approved for national changes to infrastructure assets on 28 February 2023.

On 5 April external audit raised with officers, a national issue regarding the results of the triennial valuation of the Pension Fund (31 March 2022) – that may require adjustment of the 2021/22 accounts – but would certainly delay any 2021/22 audit opinions nationally before auditors could determine their response.

The 2021/22 statement of accounts was produced in the summer of 2022 based on the latest triennial valuation (March 2019) and updated by the actuary for conditions at March 2022.

Local Government Pension Funds, including Devon were subject to the triennial valuation (March 2022). Because of the complicated nature and involved work, the actuaries do not release preliminary results until late autumn (i.e. November / December).

On 9 May 2023 the Authority received a revised actuarial report which concluded that the revised net liability on the Pension Fund at 31 March 2022 reduced by £271 million and this would be an adjusting event.

The impact on the balance sheet is as follows:

Balance Sheet item	Note	Original actuarial	Revised actuarial	Movement
		report (May 2022)	report (May 2023)	
		31 March 2022	31 March 2022	
		£000	£000	£000
Long term debtors - unfunded pensions	17	19,120	22,364	3,244
Other long term liabilities - pensions liability	24	(1,178,781)	(907,654)	271,127
Unusable Reserves - Pension Reserve	23	1,170,676	896,305	(274,371)
Remaining balance at 31 March 2022 on early cash payment of 3 year deficit contribution		11,015	11,015	0

The movement on the pension reserve has been included in the net remeasurement of the defined net liability in the Comprehensive Income and Expenditure Statement.

4) Key messages – Pension Fund Accounts

The actuarial present value of promised retirement benefits (the Funded Obligation) as at 31 March 2022 reduced by £885 million from to £9,063 million to £8,178 million. The Funded Obligation reduced from £8,905 million to £8,054 million in respect of Vested Obligation and reduced £157 million to £124 million of Non-Vested Obligation.

5) Strategic Plan

There are no Strategic Plan issues associated with this report.

6) Financial Considerations

There are no direct Financial Considerations issues associated with this report.

7) Legal Consideration

There are no specific Legal Considerations or issues associated with this report other than to note that the Committee re-approval of the Statement of Accounts for material changes is required under Regulations 9 and 10 of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Amendment) Regulations 2022.

8) Environmental Impact Considerations (Including Climate Change)

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There are no specific Environmental Impact Considerations or issues associated with this report.

9) Equality Considerations

There are no specific Equality Considerations associated with this report.

10) Management Considerations

This report supports the Council's overall integrated assurance to internal control and financial governance.

11) Public Health Impact

There is no specific impact on Public Health in connection with this report.

12) Summary/Conclusions/Reasons for Recommendations

The Committee is recommended to approve the amendments to the 2021/22 Statement of Accounts, contained in the attachment to this report.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All
Local Government Act 1972

Contact for Enquiries: Peter Lappin, peter.lappin@devon.gov.uk
Tel No: (01392) 383342 Room 180, County Hall

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
DF/23/57	20/6/2023	

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.

2020/21 Gross Expenditure	2020/21 Gross Income	2020/21 Net Expenditure		Notes	2021/22 Gross Expenditure	2021/22 Gross Income	2021/22 Net Expenditure
£000	£000	£000			£000	£000	£000
General Fund continuing operations							
363,656	(105,269)	258,387	Adult Care & Health		406,015	(103,029)	302,986
555,903	(327,992)	227,911	Children's Services		611,155	(347,833)	263,322
139,919	(54,014)	85,905	Communities, Public Health, Environment & Prosperity		158,482	(61,519)	96,963
76,878	(26,569)	50,309	Corporate		71,374	(25,460)	45,914
70,884	(12,741)	58,143	Highways, Infrastructure Development & Waste		76,938	(15,536)	61,402
71,574	(48,108)	23,466	Non Service		52,955	(62,994)	(10,039)
1,278,814	(574,693)	704,121	Cost of Services	1,14	1,376,919	(616,371)	760,548
10,440	0	10,440	Other Operating Expenditure	6,11	17,974	0	17,974
61,986	(1,810)	60,176	Financing and Investment Income and Expenditure	12	63,807	(1,113)	62,694
0	(791,228)	(791,228)	Taxation and Non-specific Grant Income	13	0	(800,600)	(800,600)
1,351,240	(1,367,731)	(16,491)	(Surplus) or Deficit on Provision of Services		1,458,700	(1,418,084)	40,616
		(24,403)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	23			(52,741)
		1,226	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	18.2			(1,656)
		236,133	Remeasurements of the net defined benefit liability	37			(479,650)
		212,956	Other Comprehensive Income & Expenditure				(534,047)
		196,465	Total Comprehensive Income & Expenditure				(493,431)

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Appendix 1 – amended pages for the Authority’s Statement of Accounts 2021/22

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 31st March 2020	(170,624)	(27,662)	(11,917)	(210,203)	247,263	37,060
Transfer DSG Deficit Balance at 1 April 2020 to new Adjustment Account	(16,145)			(16,145)	16,145	0
Balance at 1 April 2020	(186,769)	(27,662)	(11,917)	(226,348)	263,408	37,060
<u>Movement in reserves during 2020/21</u>						
Total Comprehensive Income & Expenditure	(16,491)			(16,491)	212,956	196,465
Transfer in year DSG Deficit from General Fund to Adjustment Account	(27,411)			(27,411)	27,411	0
Adjustments between accounting basis & funding basis under regulations (Note 8)	(20,059)	(16,316)	4,136	(32,239)	32,239	0
Net (Increase)/Decrease in 2020/21	(63,961)	(16,316)	4,136	(76,141)	272,606	196,465
Balance at 31st March 2021 Carried Forward	(250,730)	(43,978)	(7,781)	(302,489)	536,014	233,525
<u>Movement in reserves during 2021/22</u>						
Total Comprehensive Income & Expenditure	40,616			40,616	(534,047)	(493,431)
Transfer in year DSG Deficit from General Fund to Adjustment Account	(37,858)			(37,858)	37,858	0
Adjustments between accounting basis & funding basis under regulations (Note 8)	(15,441)	(4,543)	4,162	(15,822)	15,822	0
Net (Increase)/Decrease in 2021/22	(12,683)	(4,543)	4,162	(13,064)	(480,367)	(493,431)
Balance at 31st March 2022 Carried Forward	(263,413)	(48,521)	(3,619)	(315,553)	55,647	(259,906)

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 2021 £000		Notes	31st March 2022	
			£000	£000
1,566,236	Property, Plant & Equipment	16	1,641,455	
3,935	Intangible Assets		4,070	
2,505	Heritage Assets		2,505	
27,433	Long Term Investments	18	27,089	
	Investments in Associates & Joint			
970	Ventures	18	970	
17,366	Long Term Debtors	17	28,664	
1,618,445	Long Term Assets			1,704,753
100,752	Short Term Investments	18	162,877	
1,364	Inventories		1,720	
153,081	Short Term Debtors	19.2	141,488	
66,417	Cash and Cash Equivalents	21	87,236	
14,065	Assets held for sale	22	3,065	
335,679	Current Assets			396,386
(5,165)	Provisions	20	(6,451)	
(290)	Short Term Borrowing	18	(287)	
(1,603)	Revenue Grants Receipts in Advance	32	(7,715)	
(139,388)	Short Term Creditors	19.1	(145,537)	
(146,446)	Current Liabilities			(159,990)
(15,675)	Provisions	20	(14,054)	
(511,009)	Long Term Borrowing	18	(510,919)	
(1,449,515)	Other Long Term Liabilities	24	(1,045,761)	
(6,603)	Revenue Grants Receipts in Advance	32	(7,603)	
(58,401)	Capital Grants Receipts in Advance	32	(102,906)	
(2,041,203)	Long Term Liabilities			(1,681,243)
(233,525)	Net Assets/(Liabilities)			259,906
(302,489)	Usable Reserves		(315,553)	
536,014	Unusable Reserves	23	55,647	
233,525	Total Reserves			(259,906)

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Appendix 1 – amended pages for the Authority’s Statement of Accounts 2021/22

17. Long Term Debtors

31st March 2021 £000	31st March 2022 £000
1,401 Skypark LLP	2,150
16 Magistrates	12
15,874 Unfunded pensions	22,364
0 Deferred Capital Receipts	4,063
75 Devon Disability Collective	75
17,366	28,664

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 2021		Financial Assets	31 March 2022	
Long-Term £000	Current £000		Long-Term £000	Current £000
Investments				
18,000	100,644	Amortised cost	16,000	162,786
10,403	108	Fair Value through other comprehensive income - designated equity instruments	12,059	91
28,403	100,752	Total Investments	28,059	162,877
Cash				
	20,459	Cash flow investments (cash equivalents) - Money Market Funds - Fair Value through Profit and Loss		65,863
	50,000	Cash flow investments (cash equivalents) - Fixed interest / notice - amortised cost		20,000
	(4,042)	Cash (overdraft at bank)		1,373
0	66,417	Total Cash	0	87,236
Debtors				
1,475	90,659	Amortised cost	6,288	86,227
15,891	62,422	Debtors that are not financial instruments	22,376	55,261
17,366	153,081	Total Debtors	28,664	141,488
29,878	257,828	Total Financial Assets	34,347	336,340

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 2022. The Authority has not applied any loss adjustment for credit risk for this lending.

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Appendix 1 – amended pages for the Authority’s Statement of Accounts 2021/22

31 March 2021		Financial Liabilities	31 March 2022	
Long-Term £000	Current £000		Long-Term £000	Current £000
Borrowings - Amortised Cost				
(436,349)		Financial liabilities at amortised cost - PWLB	(436,349)	
(25,311)		Financial liabilities at amortised cost - previous LOBO* converted to fixed interest	(25,307)	
(49,349)	(290)	Financial liabilities at amortised cost - LOBOs*	(49,263)	(287)
(511,009)	(290)	Total Borrowings	(510,919)	(287)
Other Long Term Liabilities - Amortised Cost				
(110,009)	0	PFI Liability	(104,455)	
(1,831)		Financial Guarantee Liability	(1,831)	
(111,840)	0	Total carried at amortised cost included in Other Long Term Liabilities	(106,286)	0
(1,337,675)		Other Long Term Liabilities that are not financial instruments	(939,475)	
(1,449,515)	0	Total Other Long Term Liabilities	(1,045,761)	0
Creditors (payable within 12 months)				
	(91,061)	Financial liabilities at amortised cost		(119,281)
	(4,638)	PFI Liability		(5,554)
	(95,699)	Total included in Creditors		(124,835)
	(43,689)	Creditors that are not financial instruments		(20,702)
0	(139,388)	Total Creditors	0	(145,537)
(622,849)	(95,989)	Total Financial Liabilities	(617,205)	(125,122)

23. Unusable Reserves

31st March 2021			31st March 2022	
£000			£000	
(259,879)		Revaluation Reserve	(275,897)	
43,556		Dedicated Schools Grant (DSG) Adjustment Account	81,414	
(592,006)		Capital Adjustment Account	(654,017)	
14,930		Financial Instruments Adj Account	14,194	
1,309,778		Pensions Reserve	896,305	
9,381		Collection Fund Adjustment Account	(4,840)	
9,163		Accumulated Absences Account	7,178	
1,562		Financial Instruments Revaluation Reserve	(94)	
(471)		Deferred Capital Receipts Reserve	(8,596)	
536,014			55,647	

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Appendix 1 – amended pages for the Authority’s Statement of Accounts 2021/22

23. (continued) 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.

2020/21 £000	2021/22 £000
1,025,712 Balance 1st April	1,309,778
236,133 Actuarial gains or (losses) on pensions assets and liabilities	(479,650)
93,874 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	115,314
(45,941) Employer's Pensions contributions and direct payments to pensioners payable in the year	(49,137)
<u>1,309,778</u> Balance 31st March	<u>896,305</u>

24. Other Long Term Liabilities

31st March 2021		31st March 2022
£000		£000
(1,304,011)	Pensions Liability	(907,654)
(44,009)	Private Finance Initiative Liability - schools	(39,642)
(41,634)	Liability Exeter Energy from Waste	(40,959)
(24,366)	Private Finance Initiative Liability - Plymouth Energy from Waste	(23,855)
(2,376)	Deferred income - Exeter Energy from Waste	(2,270)
(31,288)	Deferred income - Plymouth Energy from Waste	(29,550)
(1,831)	Financial Guarantee	(1,831)
<u>(1,449,515)</u>		<u>(1,045,761)</u>

37. Pensions

(Only amended tables and text have been included.)

Local Government Pension Scheme and Unfunded Benefit Arrangements - Liabilities

	2020/21 £000	2021/22 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
Current service cost	64,470	101,476
Past service costs, including curtailments	61	171
(Gain)/loss from settlements	(1,733)	(7,536)
Pre 01/04/98 unfunded benefits actuarial (gains)/losses	6,667	(5,324)
Financing and Investment Income and Expenditure:		
Net interest expense	23,478	25,597
Administration expense	931	930
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	93,874	115,314
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:		
Remeasurement of the net defined benefit liability comprising:		
*Cost of Services Adjustment - Revised 2021/22 IAS19	0	(8,769)
Return on plan assets (excluding the amount included in the net interest expense)	(284,489)	(88,232)
Other actuarial gains / (losses) on assets	0	2,234
Actuarial (gain) and loss arising on changes in demographic assumptions	(25,658)	(149,901)
Actuarial (gain) and loss arising on changes in financial assumptions	571,301	(98,726)
Experience loss/(gain) on defined benefit obligation	(25,021)	(136,256)
Remeasurement of the net defined benefit liability	236,133	(479,650)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	330,007	(364,336)
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)	93,874	115,314

On the 9 May 2023 the Actuary provided a revised IAS19 report using updated information from the from the statutory triennial Fund valuation at 31 March 2022. This resulted in a revised Net Defined Benefit Liability reduction of £274m for 2021/22. The Authority has included all of this reduction, including £8.7 million that would have been charged to the net cost of services, in the remeasurement of the net defined benefit liability.

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:

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Appendix 1 – amended pages for the Authority’s Statement of Accounts 2021/22

	Local Government Pension		Unfunded Liabilities		Total	
	Scheme		2020/21	2021/22	2020/21	2021/22
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	(2,731,473)	(2,439,976)	(108,700)	(92,563)	(2,840,173)	(2,532,539)
Fair value of plan assets	1,536,162	1,624,885	0	0	1,536,162	1,624,885
Net liability arising from defined benefit obligation	(1,195,311)	(815,091)	(108,700)	(92,563)	(1,304,011)	(907,654)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Local Government Pension Scheme and Unfunded Benefit Arrangements

	2020/21	2021/22
	£000	£000
Opening fair value of scheme assets	1,217,451	1,536,162
Interest income	29,012	30,478
Administration Expenses	(931)	(994)
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	284,489	88,232
Other actuarial gains/(losses)	0	(2,234)
Employer contributions	69,776	40,588
Contributions by scheme participants	12,635	13,159
Settlement prices received/paid	(902)	(2,437)
Benefits paid	(75,368)	(78,069)
Total Assets	1,536,162	1,624,885

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Local Government Pension Scheme and Unfunded Benefits - Liabilities

	2020/21	2021/22
	£000	£000
Opening balance	(2,267,898)	(2,840,172)
Current Service Cost	(64,470)	(95,887)
Interest Cost	(52,490)	(56,075)
Contributions from scheme participants	(12,635)	(13,159)
Remeasurement gains/(losses):		
Actuarial gains and losses arising on changes in demographic assumptions	25,658	149,901
Actuarial gains and losses arising on changes in financial assumptions	(571,300)	98,726
Experience (loss)/gains on defined benefit obligation	25,021	136,256
Past service costs, including curtailments	(61)	(171)
Liabilities assumed/(extinguished) on settlements	2,635	9,973
Benefits paid	75,368	78,069
Total (Liability)	<u>(2,840,172)</u>	<u>(2,532,539)</u>

Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	31 March 2021		31 March 2022	
	£000	%	£000	%
Gilts	52,246	3%	217,056	13%
UK Equities	170,132	12%	145,753	9%
Overseas Equities	793,321	52%	822,501	51%
Property	123,382	8%	136,294	9%
Infrastructure	62,244	4%	97,514	6%
Target Return Portfolio	144,616	9%	150,852	9%
Cash	15,842	1%	23,044	1%
Other Bonds	68,877	4%	32,562	2%
Alternative assets	105,502	7%	(691)	0%
Net Asset / (Liability)	<u>1,536,162</u>	<u>100%</u>	<u>1,624,885</u>	<u>100%</u>

Agenda Item 4

Appendix 1 – amended pages for the Authority’s Statement of Accounts 2021/22

Sensitivity Analysis	31 March 2022		
	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	2,485,191	2,532,539	2,581,304
Projected service cost			
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	2,535,830	2,532,539	2,529,272
Projected service cost			
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	2,577,677	2,532,539	2,488,684
Projected service cost			
Adjustment to mortality age rating assumption	+ 1 Year	0.0%	- 1 Year
Present value of total obligation	2,663,767	2,532,539	2,408,313
Projected service cost			

Pension Fund Statement of Accounts

20. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £8,178 million as at 31 March 2022 (£9,085 million as at 31 March 2021). The Funded Obligation consists of £8,054 million (£8,919 million as at 31 March 2021) in respect of Vested Obligation and £124 million (£166 million as at 31 March 2021), of Non-Vested Obligation. The Pension Fund holds assets, as disclosed in the Net Asset Statement, which offset these projected total liabilities.

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.

Following the transition to the updated CMI_2021 Model, with a 2020 weight parameter of 5%, the effect on the Funds liabilities in 2021/22 was a decrease of £470 million. There was no further impact on the Funds liabilities in 2021/22 resulting from changed demographic assumptions.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	31 March 2020	31 March 2021 after CMI 2020 update	31 March 2021 after CMI 2021 update
Retiring Today			
Males	22.9	22.6	21.7
Females	24.1	23.9	22.9
Retiring in 20 years			
Males	24.3	24.0	23.0
Females	25.5	25.4	24.3

Devon County Council Audit Plan

Year ending 31 March 2023

Devon County Council

September 2023

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Section	Page	
Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Council's Director of Finance and Public Value. (The S. 151 Officer).
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness, including actions taken to address recommendations.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control- refer to page 8.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Devon County Council ('the Council') for those charged with governance. Our planning is well progressed but not complete, so this is an indicative plan. We will keep our opinion and VFM risk assessments under continuous review as planning concludes. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to the Council.

Respective responsibilities

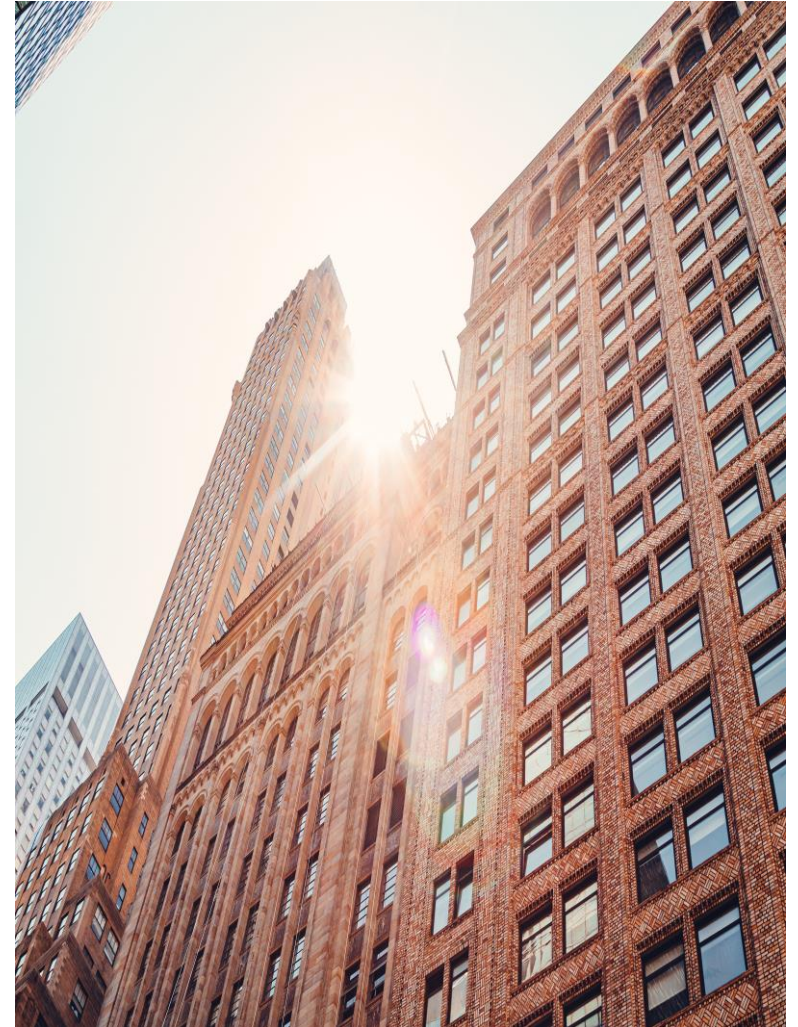
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit appointments (PSAA), the body responsible for appointing us as auditor of Devon County Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance the Audit Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Page 22.
- management override of control
 - valuation of land and buildings
 - valuation of the pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

As we have now received the draft 2022/23 accounts, we have based materiality on the draft 2022/23 accounts. We have determined materiality for the final accounts audit to be £20.9m

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £950,000 (PY £895,000).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- The Council's response to Ofsted's inspection of Children's Social Care Services and the weaknesses identified in the service provision in childrens services.
- Financial pressures within Special Educational Needs and Disabilities (SEND) and the significant and increasing deficit.
- Financial pressures within the Council resulting from the current macro-economic environment.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our planning and interim work took place in March 2023 with our final visit commencing in September 2023.

Our proposed fee for the audit will be £145,629 (PY estimated: £157,904) for the Council, subject to the Council delivering a good set of financial statements and working papers and there being no significant financial reporting or accounting matters requiring additional audit time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Devon County Council, we have determined that the risk of fraud arising from revenue recognition can 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 do not consider this to be a significant risk for Devon County Council.
Risk of fraud related to expenditure recognition PAF Practice Note 10	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition.	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Devon County Council because: - expenditure is well controlled and the Fund has a strong control environment; - there is no incentive for management to mis-represent expenditure; and - the Council has clear and transparent reporting of its financial plans and financial position to those charged with governance. We therefore do not consider this to be a significant risk for Devon County Council.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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.	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the design effectiveness of management controls over journals. Analyse the journals listing and determine the criteria for selecting high risk unusual journals. Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2023 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. Evaluate the competence, capabilities and objectivity of the valuation expert. Write to the valuer to confirm the basis on which the valuation was carried out. Evaluate the reasonableness of the key assumptions made by the valuer in determining the valuations. Engage our own valuation expert, Wilks Head and Eve, to provide commentary on: <ul style="list-style-type: none"> the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the valuation methodology and approach, resulting assumptions adopted and any other relevant points further review of specific asset valuations if required. Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. Test revaluations made during the year to see if they have been input correctly to the Council's asset register. 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.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered to be a significant estimate due to the size of the numbers involved (£262 million) in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Government Accounting (the applicable financial framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used by the actuary in their calculation.</p> <p>The source data used by the actuary to produce the IAS 19 estimates is provided by the administering authority and employers. We do not consider this to be a significant risk as it is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increases and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in the assumption would have approximately a 1.9% effect on the liability.</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculations. With regard to these assumptions we have therefore identified the valuation of the Council's pension fund liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. Evaluate the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work. Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. Test 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. Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (using our auditor's expert) and performing any additional procedures suggested by our expert. Obtain assurances from the auditor of 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.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 [the Act].
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings Report. We will follow up on the implementation of our recommendations during the course of the audit.

Issue and risk previously communicated

Journal authorisation

As reported on page 7, we have identified a significant control weakness regarding the processes in place for all journals above £200k.

We wrote to the Council seeking clarification over the arrangements in place and used this response to determine our approach to journals testing. The Council should introduce enhanced controls over the authorisation of its journals to ensure there is adequate Segregation of Duties and appropriate IT access controls.

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Related Party Disclosures

We identified that not all members interests annual declarations were returned.

There is a risk of interests not being recorded and reported appropriately.

The Council should ensure that all members return their interests confirmations.

Asset lives

Our testing identified that 20 assets under construction completed and transferred to infrastructure during the year were not assigned a useful life. This resulted in depreciation not being charged.

This results in depreciation being undercharged during the year.

Management should ensure that assets reclassified when brought into use are assigned a useful life to ensure that depreciation is appropriately charged.

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.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality has been calculated at £20.9m, which equates to 1.4% of your gross expenditure reported in the draft financial statements.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <p>We have not identified any areas where we consider that a lower materiality is required.</p>

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.

Matter	Description	Planned audit procedures
3	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £950,000 (PY £895,000). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p>

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.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	20,900,000	This was set at 1.4% of the Council's gross expenditure.
Performance materiality	£14,630,000	This is set at 70% of materiality and based on the level of deficiencies in control environment in prior years.
Trivial matters	£1,045,000	Based on 5% of materiality.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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IT system	Audit area	Planned level IT audit assessment
Finest	Financial reporting	ITGC assessment (design and operating effectiveness)
iTrent	Payroll	Testing of system data

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

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Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We are currently in the process of finalising our 2020/21 and 2021/22 combined Value for Money work. Once concluded we will undertake our planning in this area and report on any risks of significant weaknesses to those charge with governance. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Agenda Item 5

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

1. Ofsted's inspection of Children's Social Care Services

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 the Council developed a Statement of Action in response to the issues raised. Further visits by OFSTED continue to highlight weaknesses in arrangements.

We will review the progress the Council has made against these actions and will also be cognisant of any future inspections or follow-up visits / reports from Ofsted.

2. Financial pressures within Special Educational Needs and Disabilities (SEND)

Financial pressures within this area mean that the Council has reported an overspend of £38.9m relating to its Dedicated Schools Grant as at the end of 2022/23. This overspend is slightly higher than the figure reported in 2021/22. The cumulative deficit now stands at £125.4m.

We will review the plans the Council has to reduce the annual expenditure in this area and, ultimately, to recover the cumulative overspend.

3. Financial pressures in delivering the 2022/23 budget

In common with many other authorities, the current high inflation environment and cost of living crisis is placing significant strain on the Council's ability to deliver its planned 2022/23 outturn. In July 2022, the Council reported a projected overspend of £30 million against its budget with the potential for a further overspend of £10 million due to ongoing inflationary pressures. The Council has mobilised to identify and deliver cost savings resulting in an underspend at year end of £156,000 after contributions and carry forwards of £2 million.

We will review the Council's response to address the financial pressures within the current budget and as part of medium term financial planning.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



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Peter Barber, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers



Sam Harding, Audit Manager

Plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Report of the Director of Finance and Public Value and the Chief Executive and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Devon County Council to begin with effect from 2018/19. The fee agreed in the contract was £100,865. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

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Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.

Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.

- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23 is detailed overleaf and has been agreed with the Director of Finance and Public Value.

Audit fees

	Estimated Fee 2020/21*	Estimated Fee 2021/22*	Proposed Fee 2022/23
Devon County Council Audit	£141,916	£157,904	£145,629
Total audit fees (excluding VAT)	£141,916	£157,904	£145,629

Assumptions

In setting the above fees, we have assumed that the Council will:

prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit

- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

* Subject to final approval by the Council and PSAA Ltd

Audit fees – detailed analysis

Scale fee published by PSAA 2022-23	£95,879
Value for Money audit – new NAO requirements	£20,000
Use of expert – land and buildings valuation	£5,000
Additional audit procedures arising from a lower materiality	£3,750
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	£500
Increased audit requirements of revised ISA 540	£6,000
Enhanced audit procedures on journals testing	£3,000
Increased audit requirements of revised ISA 315	£5,000
Infrastructure	£2,500
Increased FRC challenge	£1,500
Local risk factors	£2,500
Total estimated audit fees 2022/23 (excluding VAT)	£145,629

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

[The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers Pension Scheme return	7,500	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 £xx in comparison to the total fee for the audit of £145,629 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.
Non-audit related			
Subscription to CFO insights	6,250	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 £xx in comparison to the total fee for the audit of £145,629 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	<p>Respective responsibilities</p> <p>As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.</p> <p>The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud[deliberate manipulation] involving management and/or which results in material misstatement of the financial statements [not typically council tax fraud]		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	

External Audit Plan

Year ending 31 March 2023

Devon Pension Fund

1 September 2023

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Contents



Your key Grant Thornton team members are:

Peter Barber

Key Audit Partner

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David Bray

Audit Manager

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Section	Page	
Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
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Key matters



Local Context

The draft financial statements of Devon Pension Fund for the year ended 31 March 2023 show an overall decrease of £99m (1.9%) in asset valuations across a diverse portfolio of investments.

Like all funds, economic uncertainty and high inflation continue to provide a wider contextual challenge to the fund.

The substantial programme of transitioning the Fund's investment assets into Brunel managed portfolios has been completed with Brunel now managing 95% of Devon Pension Fund's assets.

The most recent triennial revaluation, as at 31 March 2022 was reported in late March 2023 and this shows that the funding level has improved from 91% at 31 March 2019 to 98% at 31 March 2022. Whilst the expected liabilities of the fund have increased over the three year period from 2019 to 2022, the Fund's assets have also increased, leaving a net deficit of £89m.

National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment.

The pressures on household income have raised concerns that members of Local Government Pension Schemes will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several Pension Scheme members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Council's Director of Finance and Public Value. (The S. 151 Officer).
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators.
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Devon Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Devon Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

Page 48
Revenue and expenditure recognition (rebutted)
Management over-ride of controls

- Valuation of level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined materiality to be £66.4m (PY £54.1m) for the Pension Fund, which equates to 1.25% of your gross assets per the Net Asset Statement as at 31 March 2023. We have determined a separate lower materiality of £24.5m for the Fund Account, which accounts to 10% of the expenditure in the Fund Account in the year to 31 March 2023.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £3.3m (PY £2.7m).

Audit logistics

Our initial planning took place in March 2023 and our final audit will take place in July to September 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £74,569 (PY: TBC) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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 Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Devon Pension Fund.</p>	No specific work is planned as the presumed risk has been rebutted.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for Devon Pension Fund because:</p> <ul style="list-style-type: none"> • expenditure is well controlled and the Fund has a strong control environment; and • the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance. <p>We therefore do not consider this to be a significant risk for Devon Pension Fund.</p>	No specific work is planned as the presumed risk has been rebutted.

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'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>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</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

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Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	<p>The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • independently request year-end confirmations from investment managers and custodians; • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period; and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • where available review investment manager service auditor report on design effectiveness of internal controls.

Other matters

Other work

The Pension Fund is administered by Devon County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State;
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in 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.

Matter	Description	Planned audit procedures
1	<p>Determination – Net Asset Statement</p> <p>We have determined financial statement materiality based on a proportion of the gross assets as at 31 March 2023 for the Pension Fund.</p> <p>Materiality has been determined as £66.4m, which equates to 1.25% of your gross assets as at 31 March 2023.</p>	<p>We determine materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	<p>Determination – Fund Account</p> <p>We have determined the fund account materiality based on a proportion of the fund’s expenditure in the year to 31 March 2023.</p> <p>Materiality has been determined as £24.5m, which equates to 10% of the fund’s expenditure in the year to 31 March 2023.</p>	<p>We determine materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements.

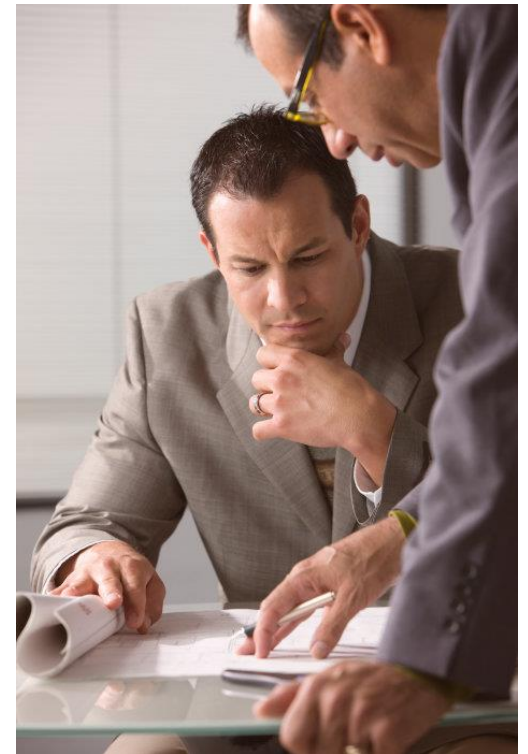
Our approach to materiality

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £3.3m (PY £2.7m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p>

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.

	Amount (£)	Qualitative factors considered
Materiality for the Pension Fund's financial statements – Net Asset Statement	£66.4m	<p>We have considered the following qualitative factors.</p> <ul style="list-style-type: none"> • Key users of the financial statements and which performance measures key stakeholders for the entity are interested in • Business environment • Control environment • Other sensitivities (e.g. Changes in regulations).
Materiality for the Pension Fund's financial statements – Fund Account	£24.5m	<p>We have considered the following qualitative factors.</p> <ul style="list-style-type: none"> • Key users of the financial statements and which performance measures key stakeholders for the entity are interested in • Business environment • Control environment • Other sensitivities (e.g. Changes in regulations).



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 17.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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IT system	Audit area	Planned level IT audit assessment
FINEST	Financial reporting	<ul style="list-style-type: none"> Evaluate the design and determine the implementation of relevant ITGCs.
Altair	Member data and benefits payable calculations	<ul style="list-style-type: none"> Evaluate the design and determine the implementation of relevant ITGCs.

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Audit logistics and team



Planning and risk assessment

Audit Committee
September 2023



Audit Plan

Year end audit
July to September 2023

Audit Committee
November 2023



Audit Findings Report

Audit Committee
TBC



Audit Opinion

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Peter Barber, Key Audit Partner
Provides oversight of the delivery of the audit including regular engagement with Audit / Pensions Committees and senior officers.

David Bray, Senior Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

Peter Brereton, Macaulay Gulliford, Shourya Goyal Assistant Managers

Key audit contacts responsible for the day to day management and delivery of the audit work.

Audited Entity responsibilities

Where audited entities do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018 PSAA awarded a contract for the audit of Devon Pension Fund to begin with effect from 2018/19. The fee agreed in the original contract was £22,024, although PSAA increased this to £25,149 for 2022/23. Since the original contract was issued there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2022/23 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23 is detailed overleaf and has been agreed with the Director of Finance and Public Value.

Audit fees

	Expected Fee 2021/22	Proposed fee 2022/23
Devon Pension Fund Scale Fee set by PSAA		£25,419
Impact of ISA 540 & increased focus and Level 2 & 3 Investments		£6,000
Journals		£2,000
Impact of additional FRC challenge		£3,750
Impact of ISA 315 (see page 17)		£3,000
Additional work on data testing re triennial actuarial valuation		£5,000
IAS 19 Assurances (see page 19)		21,400
Re-issued IAS 19 letters for 2021/22 (£1,000 per admitted body)		8,000
Total fees (excluding VAT)	TBC	£74,569

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Other services

No other services provided by Grant Thornton were identified.

Following consultation with PSAA, it has been confirmed that fees relating to IAS 19 assurances will now form part of audit fees. This is a change compared to the prior period and IAS 19 fees have been disclosed on page 18.

Communication of audit matters with those charged with governance

Our communication plan

	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

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DF/23/88
Audit Committee
25 September 2023

DEVON COUNTY COUNCIL – CONTROL ENVIRONMENT

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1) Recommendation

- 1.1 That the Committee be asked to
- (a) Note the report.
 - (b) Endorse the responses from the Director of Finance and Public Value to the external auditors' questions.

2) Introduction

- 2.1 Each year, as part of the auditors' risk assessment procedures they are required to obtain an understanding of management processes and the Council's oversight of the following areas:
- General Enquiries of Management;
 - Fraud;
 - Laws and Regulations;
 - Impact of Laws and Regulations;
 - Related Parties;
 - Climate Change and wider global issues
 - Going Concern; and
 - Accounting Estimates.
- 2.2 The auditors have requested that the responses from the Council are inserted into the template of their reports, one for the Council and one for the Pension Fund, as attached.

Agenda Item 7

- 2.3 The auditors have asked the Audit Committee to consider whether these responses from management are consistent with its understanding and whether there are any further comments it wishes to make.

Angie Sinclair

Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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Informing the audit risk assessment for Devon County Council 2022/23

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

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Devon County Council's external auditors and Devon County Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Climate change and wider global issues;
- Going Concern, and

- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from Devon County Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General enquiries of management

Question	Management response – County Council
1 What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	SEND continues to overspend and this deficit is held in the DSG Adjustment Account. The report of the Chief Executive and Director of Finance and Public Value (narrative report) provides more detail.
2 Have you considered the appropriateness of the accounting policies adopted by Devon County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	There are very few changes to CIPFA's Code of Practice for 2022/23. Consequently, the Authority's accounting policies are largely unchanged from the previous year. CIPFA's Bulletin No 10 on the 21/22 accounts issued in April 2022 has deferred the implementation of IFRS 16 (lease accounting) until 1 April 2024.
3 Is there any use of financial instruments, including derivatives? If so, please explain	There is a disclosure in the Statement of Accounts regarding day to day financial instruments such as Treasury Management Investments, cash, debtors and creditors. There are two PFIs and a similar arrangement with comprehensive disclosures in the notes to the financial statements. There are no derivatives or complex instruments. There has not been any new external borrowing since 2009.
4 Are you aware of any significant transaction outside the normal course of business? If so, what are they?	There have been no significant transactions outside the normal course of business.
5 Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Annual impairment reviews are undertaken of the Authority's Property Plant and Equipment. There are no significant impairments to disclose.

Question	Management response – County Council
6 Are you aware of any guarantee contracts? If so, please provide further details	Guarantees are disclosed in the note to the financial statements –under contingent liabilities where the expected transfer of payment is improbable. There are disclosures in the related party note.
7 Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	There are no material loss contingencies or un-asserted claims. Contingent liabilities and related party transactions are disclosed in separate notes to the financial statements.
8 Other than in house solicitors, can you provide details of those solicitors utilised by Devon County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The Authority has outsourced legal work to Michelmores LLP, Ashfords, Browne Jacobson (including contingency work), DJB and Foot Anstey (mainly conveyancing).</p> <ul style="list-style-type: none"> •James Falle (Temple Bright) for Norse and Skanska •Burges Salmon for Exeter Energy from Waste •Browne Jacobson for state aid advice <p>Graham Cridland solicitor and Director of Origin and Graham Gover, Solicitor have worked on planning matters.</p> <p>Duncan Tilney of Stephens Scown LLP</p> <p>Womble Bond Dickinson (jointly with Plymouth City Council and South Hams District Council) for work on the Freeport project.</p> <p>Mark Fowles DWF Law</p> <p>Wolferstans LLP</p> <p>Andrew Spooner, Biscoes Law</p> <p>DWF Law – for advice on Future Finance ICT procurement</p>

Question	Management response – County Council
	<p>Eversheds Sutherland LLP – for advice on CSW Group Ltd and also PFI queries</p> <p>Tozers – agricultural tenancy termination</p>
<p>9 Have any of the Devon County Council’s service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>Devon Audit Partnership reports a summary of fraud and irregularity to the Audit Committee as part of the regular Internal Audit reports.</p> <p>Such reported frauds are not of sufficient value to affect the financial statements of the Authority. GT auditors are present at the meetings when the summary is discussed.</p>
<p>10 Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Link Asset for Treasury Management</p> <p>NPS for property valuations</p> <p>Barnett Waddingham for actuarial advice and valuations</p>
<p>11 Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>The Authority does not tend to give out loans to 3rd parties. There is a loan disclosed in Note 17 of the 2022/23 as a long term debtor with Devon Disability Collective. The amount due in more than 12 months was only £51,000.</p> <p>The Authority reviews the collectability of debt and reports to members the aged analysis and bad debt provision, which is summarised in the Revenue Outturn report presented to Cabinet in June 2023.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Devon County Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the

fraud risk assessment questions below together with responses from Devon County Council's management.

Fraud

Question	Management response- County Council
<p>1 Has Devon County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the authority's risk management processes link to financial reporting?</p>	<p>The risk of material misstatement due to fraud is assessed as low but the Authority recognised that the need for prompt payments to new suppliers during COVID 19 increased the inherent risk. The Authority has responded by issuing guidance to employees and monitoring of authorised expenditure.</p> <p>There is regular monitoring of budgets which would identify any material variances.</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions –such as payments.</p> <p>The financial statements are reviewed by the Director of Finance and Public Value and other members of Finance Leadership Team.</p> <p>Overall financial performance in the financial statements is reconciled back to the Outturn Report reported to Cabinet.</p> <p>Internal Audit reviews the system of internal controls and the main accounting systems. Devon Audit Partnership (DAP) provides a regular update to the Audit Committee regarding its work and key findings. DAP has presented its annual report for 2022/23 to the Audit Committee.</p>
<p>2 What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified.</p>

Question	Management response- County Council
<p>3 Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Devon County Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>The internal audit team maintain a record of incidents that have occurred during the year. This can be provided to external audit on request.</p> <p>When preparing the annual internal audit plan, the internal audit provider (Devon Audit Partnership) will bring to the attention of the audit committee the important role that members play in setting a zero-tolerance approach for fraud.</p> <p>When undertaking internal audit assignments all auditors will assess the control environment against the threat of fraud and corruption. Auditors will assess the effectiveness of controls in place to prevent and detect fraud and make recommendations for further improvement if required.</p> <p>The internal audit plan will refer to time set aside to respond and investigate concerns / allegations of fraud and corruption.</p> <p>Internal Audit (Devon Audit Partnership) provides reports to the Audit Committee on a six monthly and annual basis; part of this report refers to counter fraud arrangements.</p> <p>The reports will refer to counter fraud work (such as the National Fraud Initiative) and provide a summary of the frauds / irregularities that the Authority has faced in the year. As this is a public report, details of the frauds are reported at a summary level, but more details can be provided to members if they request.</p>
<p>4 As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Audit Committee receives regular updates about the risk register, the risk management process and key risks facing the Authority. Grant Thornton is present at such updates and discussions.</p>

Question	Management response- County Council
<p>5 Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Devon County Council where fraud is more likely to occur?</p>	<p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified.</p> <p>Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>Management has not identified any particular locations where fraud is more likely to occur.</p>
<p>6 What processes do Devon County Council have in place to identify and respond to risks of fraud?</p>	<p>Awareness is key to identifying the possibility of fraud and as such it is essential that staff are aware of the possibility of fraud within their working environment. We have an e-learning “fraud awareness” module in place to help managers increase their fraud awareness.</p> <p>The Counter Fraud Manager of DAP has provided a training and awareness session for all finance staff on Fraud, and the steps staff can take to help prevent fraud occurring.</p> <p>Our internal audit team, Devon Audit Partnership (DAP) issues regular fraud bulletins to raise awareness of the possibility of fraud; identify the circumstances of their occurrence and the controls that should be in place and adhered to by staff to minimise the risk of similar frauds taking place within the authority.</p>

Question	Management response- County Council
	<p>Where areas of fraud risk are identified, these are reviewed by management and subject to audit review to ensure the controls in place are fit for purpose and being adhered to.</p> <p>All allegations of fraud are taken seriously and are investigated promptly by management in conjunction with Internal Audit, HR and Legal Services as applicable.</p> <p>The annual internal audit plan includes time for fraud prevention, detection and investigation. This plan is subject to annual review and takes into account any areas of concern which have been raised by colleagues within other local authorities, or national initiatives in areas where fraudsters are known to operate.</p> <p>Through the work undertaken by Internal Audit, Trading Standards and various law enforcement partners, all significant findings are advertised via the media and the public website to raise awareness of the implications of what can happen to a fraudster if they are found out and a conviction successfully obtained.</p> <p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified. Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>DCC has access a range of specialist services, including 7 qualified Counter Fraud Specialists. In addition, the internal audit team contains a number of</p>

Question	Management response- County Council
	audit professionals (27 staff), who are trained at designing systems and controls to prevent and detect fraud and to investigate this should it arise.
<p>7 How do you assess the overall control environment for Devon County Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Management considers that there is a strong control environment for Devon County Council and Devon Pension Fund.</p> <p>Segregation of duties is embedded in the control environment and for each major financial system.</p> <p>Devon Audit Partnership undertakes a thorough programme of internal audit reviews and reports the key findings of each audit and its overall conclusion to the Audit Committee. In its annual report to the Audit Committee in June 2023 it concluded that there was “Reasonable Assurance” on the adequacy and effectiveness of the internal control framework within the County Council.”</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions –such as payments.</p> <p>The financial statements are reviewed by the Director of Finance and Public Value and other members of Finance Leadership Team.</p>

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Question	Management response- County Council
	<p>Management has not identified any particular areas for increased risk of override of controls or inappropriate influence over the financial reporting process. There is regular monitoring of income and expenditure against the budget. Summary reports are provided to members</p> <p>At year end overall financial performance in the financial statements is reconciled back to the Outturn Report reported to Cabinet.</p>
<p>8 Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Management has not identified specific areas where there would be fraudulent misreporting in the financial statements.</p>
<p>9 How does Devon County Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>These are communicated through messages via the Insider publication, Core Briefings, senior management team meetings etc. as part of the management process.</p> <p>In addition, guidance is available to staff on the relevant policies around business practices and ethical behaviour; including within the Code of Business Conduct the need to be transparent and register gifts and hospitality offered but declined.</p> <p>A short training and awareness session has recently been produced by our Counter Fraud Team and can be found on DEL (Devon Learning) under the Essentials for All category.</p> <p>Our Anti-Money Laundering Policy has recently been updated(SharePoint Private) and we encourage all employees, especially those involved with financial transactions, to make themselves aware of the policy.</p>

Question	Management response- County Council
	<p>We have prepared a short training video with the aim of raising awareness of our Anti-Money Laundering Policy.</p> <p>Anti Money Laundering Guide for Council Staff -YouTube</p>
<p>10 From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Authority has in place controls to reduce the risk of fraud –including segregation of duties. Controls are reviewed by Devon Audit Partnership and any significant weaknesses are reported to the Audit Committee.</p>
<p>11 Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details.</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Authority is not aware of any related party relationships or transactions that could give rise to instances of fraud.</p>
<p>12 What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>When preparing the annual internal audit plan, the internal audit provider (Devon Audit Partnership) will bring to the attention of the audit committee the important role that members play in setting a zero-tolerance approach for fraud.</p> <p>When undertaking internal audit assignments all auditors will assess the control environment against the threat of fraud and corruption. Auditors will assess the effectiveness of controls in place to prevent and detect fraud and make recommendations for further improvement if required.</p> <p>The internal audit plan will refer to time set aside to respond and investigate concerns / allegations of fraud and corruption.</p>

Question	Management response- County Council
	<p>Internal Audit (Devon Audit Partnership) provides reports to the Audit Committee on a six monthly and annual basis; part of this report refers to counter fraud arrangements.</p> <p>The reports will refer to counter fraud work (such as the National Fraud Initiative) and provide a summary of the frauds / irregularities that the Authority has faced in the year. As this is a public report, details of the frauds are reported at a summary level, but more details can be provided to members if they request.</p>
13 Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<p>The Director of Legal and Democratic Services has overall responsibility for the maintenance and operation of the whistleblowing policy and to ensure that a central record is kept for all referrals.</p> <p>Internal Audit maintains a record of referrals of any financial irregularities include whistleblowing. Each year a copy of this record is provided to external audit.</p>
14 Have any reports been made under the Bribery Act? If so, please provide details	No reports been made under the Bribery Act

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Devon County Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response- County Council
<p>1 How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Devon County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>In addition to indicating how any proposal will reflect/contribute to the Council's priorities/strategic plan/corporate goals and the options considered every report to Cabinet must highlight any necessary legal considerations taken into account. This could be to indicate either that there were no specific legal considerations or to show that the 'lawful' implications/consequences of the proposals/recommendations/proposed course of action have been considered and taken into account in the preparation of the report/formulation of the recommendations.</p> <p>The Constitution is the Council's Code of Corporate Governance which 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.</p> <p>The Director of Legal and Democratic Services and her team are kept informed of legal developments through updates in professional journals and newsletters.</p> <p>The Society of County Treasurers provides technical updates to changes in legislation and regulation which have a financial implication for the Council.</p> <p>Management is not aware of any changes to the authority's regulatory environment that may have a significant impact on the authority's financial statements</p>
<p>2 How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>This response from Management and the reports from Internal Audit would identify any significant non-compliance with laws and regulations. The Annual Governance Statement which is circulated</p>

Question	Management response- County Council
	amongst senior management also confirms the governance arrangements of the Authority to ensure that its business is conducted in accordance with the law.
3 Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details	Management is not aware of non-compliance with any laws and regulations.
4 Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	There is no actual or potential litigation or claims that would affect the financial statements. If there is any potential liability to the Authority whether through litigation, data protection breached or guarantees then these are disclosed in the Statement of Accounts – particularly the note on contingent liabilities.
5 What arrangements does Devon County Council have in place to identify, evaluate and account for litigation or claims?	Decision reports include financial and legal implications. We have general monitoring of legal work i.e. we receive 'letters before action'. The risk register may be another source to identify litigation or claims.
6 Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	There have not been any report from other regulatory bodies, such as HM Revenue and Customs which indicate non-compliance.

Related parties

Matters in relation to Related Parties

Devon County Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Devon County Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any body that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the authority's perspective but material from a related party viewpoint then the authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related parties

Question	Management response – County Council
<p>1 Have there been any changes in the related parties including those disclosed in Devon County Council's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Devon County Council • whether Devon County Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>Each year the note to the Statement of Accounts is updated for any changes to related parties. This note is comprehensive.</p> <p>Partnerships and related party transactions cover almost 8 pages in the Statement of Accounts (Note 34)</p> <p>The Statement of Accounts 2022/3 was published on the Authority's website from June 2023.</p>
<p>2 What controls does Devon County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Chief Officers (Chief Executive and those reporting to the Chief Executive) and Councillors are contacted in March and asked to disclose any related party relationships. The ledger is interrogated for any transactions with disclosed organisations. If responses have not been received then reminders are issued and further reminders if required. Where responses are not forthcoming then the Register of Interests is reviewed by Finance to identify potential disclosures.</p>
<p>3 What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Significant transactions are subject to authorisation –whether they are with related parties or not. There is segregation of duties –one officer will process claims and another will approve them according to the Council's Scheme of Delegation.</p>
<p>4 What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The response to 3 applies. Significant budget variations are reported in Budget Management Reports and the Outturn report to Cabinet after the year end. The Council operates the same financial controls to significant transactions regardless of whether or not the transactions are of a regular nature or a one-off.</p>

Climate change and wider global issues

Matters in relation to Climate Change and Wider Global Issues

In addition to the issues outlined in other sections, the audit team have deemed it appropriate to include inquiries regarding the impact of climate change, and wider global issues such as the Russian invasion of Ukraine, may have on the council's financial statements. These global issues are increasingly impacting the environment of local government bodies, and the inquiries in the following page relate to how these issues are expected to impact the council's financial statements, risk management assessment, and medium term financial plan.

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Climate change and wider global issues

Question	Management response- County Council
<p>1 Have Devon County Council considered the impact that climate change, and particularly the Council's declaration of a climate emergency, on the Council's financial statements during current year and future years?</p>	<p>The Authority holds an Emergency Reserve of just over £19 million to help provide financial cover for severe weather events.</p> <p>There is also £1.5 reserve for the Climate Change emergency and from the Authority's limited resources £300,000 was added to the Planning, Transportation and Environment budget in 2021/22 and for ongoing years.</p>
<p>2 How has the impact of climate change, and other global issues, been taken into account by the council as part of its medium term financial plan? Additionally, how have these issues been considered as part of the council's risk management arrangements?</p>	<p>Where there are pressures on revenue budgets for whatever reason (including climate change say on highways) then an assessment is made at each budget round.</p>
<p>3 Are increasing levels of insurance premiums as a result of climate change likely to materially impact the Council's financial statements.</p>	<p>Total insurance premia are well below materiality so the impact of climate change on insurance premia is unlikely to have a material impact on the Authority's financial statements.</p>
<p>4 How has the Council factored the risk of changing borrowing rates available to the Council, as a result of global issues, into its cashflow forecasting and treasury management strategy?</p>	<p>The Investments team is constantly reviewing interest rates to achieve the best return on temporary cash flow investments.</p> <p>All of the Authority's borrowing is through fixed rate loans. Any early redemption of these loans would incur a significant premium or penalty.</p> <p>The Authority has not taken out any new borrowing since 2008, although Cabinet has recently given approval for new</p>

Question	Management response- County Council
	borrowing up to £15 million for infrastructure investment in the Freeport. The servicing of this debt and repayment of the principal will be met from retained ring fenced business rates generated by the growth of the Freeport (to be authorised by statutory instrument).

Going concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going concern

Question	Management response- County Council
1 What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Devon County Council will no longer continue?	By definition – statutory services have to be provided. So it is difficult to see the relevance of the audit question of identifying events where statutory services will no longer continue.
2 Are management aware of any factors which may mean for Devon County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	The Authority is not aware of any factors which mean that statutory services will no longer be provided.
3 With regard to the statutory services currently provided by Devon County Council, does Devon County Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Devon County Council to cease to exist?	<p>Statutory services are either provided by the Authority or on behalf of the Authority. There are no plans or proposals to outsource any functions in the foreseeable future.</p> <p>If anything services are being brought back in house such as the Education and Inclusion contract being brought back in house from August 2022 with the addition to head count of 204 full time equivalents (please see page 16 of the 2022/23 Budget Book).</p>
4 Are management satisfied that the financial reporting framework permits Devon County Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	<p>The CIPFA Code for Local Authority Accounting requires the Statement of Accounts to be prepared on a going concern basis.</p> <p>“...Going concern assumption</p> <p>2.1.2.9 Going concern – an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory</p>

Question	Management response- County Council
	<p>prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern....”</p> <p>There is no reason whatsoever why there would be any departure from this basis. Management is satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting estimates – General enquiries of management

Question	Management response- County Council
1 What are the classes of transactions, events and conditions, which are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Note 5 of the Statement of Accounts sets out the major sources of estimation uncertainty –namely the Pensions Liability (using the assumptions and estimates provided by the actuary) and Property Plant and Equipment. The billing authorities have the statutory responsibility of providing estimates that affect the Collection Fund.
2 How does the authority's risk management process identify and address risks relating to accounting estimates?	Note 5 sets out the key uncertainties. The material assumptions affect only unusable reserves –Pension Reserve, Revaluation Reserve and CAA –there is no impact on outturn or the Authority's ability to finance future expenditure.
3 How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The Authority would only consider that there was a need to change accounting estimates if this was required by a change to the Code or errors identified with the accounts. The Authority has not identified any issues that would require the need to change the method of calculating accounting estimates.
4 How do management review the outcomes of previous accounting estimates?	Where actual income or expenditure in the following period differs significantly from estimates in the Statement of Accounts then the impact would be identified in the following year and reported in subsequent Budget Management Reports and Outturn Report. Senior finance officers review the draft Statement of Accounts and will request explanations of significant variances.
5 Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	There were no changes made to the estimation processes in 2022/23.
6 How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management assigns work to appropriately qualified staff with the required skills. If those skills or qualifications are not available in house then the specialised services will be sought externally.

Question	Management response- County Council
	<p>In order to assess the Pension Liability and issue a report under International Accounting Standard 19 then specialist actuarial skills have been commissioned from a registered actuary, Barnett Waddingham.</p> <p>NPS is commissioned to provide valuations of land and buildings provided by a suitably qualified RICS valuer.</p>
<p>7 How does the authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The two most significant accounting estimates in the Statement of Accounts are the valuations of land and buildings and estimate of the pension liability.</p>
<p>8 How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>If there are unexpected variances or movements on balances then management will make enquiries of the expert but the Authority relies on the professional experience and qualifications of the experts –because that is why they are commissioned. The actuary and valuer are commissioned to provide estimates for which there is no suitably qualified in house resources.</p> <p>These estimates do not affect outturn or usable reserves so there are no financing implications for the Authority.</p>
<p>9 What is the nature and extent of oversight and governance over management’s financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> • Management’s process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements. 	<p>Management presents the Budget Management reports and Outturn report to Cabinet including any uncertainties about any assumptions used. These are not material to the Authority’s accounts. The Statement of Accounts which includes the estimates of the actuary and valuer are presented to the Audit Committee. The Code prescribes the accounting policies which are to be used and disclosed in the accounts.</p>

Question	Management response- County Council
10 Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Appendix A sets out the significant accounting estimates.
11 Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The management arrangements for the accounting estimates, as detailed in Appendix A is reasonable.
12 How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	The Director of Finance and Public Value certifies the Statement of Accounts presents a true and fair view and the Audit Committee receives a report from external audit regarding the findings of its work. A summary of these arrangements has been set out on these slides.

Appendix A – Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
PPE valuation	Valuation Certificate provided to Valuer of Fixed Assets identified as needing to be valued at 31 December 2022. Assets have been valued using one of the following methods: -Existing Use Value -Depreciated Replacement Cost -Market Value	Valuations are performed in accordance with: -The Code of Practice of Local Authority Accounting in the United Kingdom 2022/23 --UKVS 1.3 of the RICS Valuation – Professional Standards UK. -Appraisal & Valuation Standards published by the Royal Institute of Chartered Surveyors (RICS); -Quinquennial Rolling Programme of	Independent Valuer –NPS – RICS qualified	Note 5 in the Statement of Accounts sets out the degree of estimation uncertainty. Assets valued at current value amount to £743 million and a 1% variation assumptions would result in a £7 million change to carrying amount.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
		Valuation Reviews.			
Pension liability valuation	This has been assessed using projected unit credit method, an estimation of the pensions that will be payable in future years dependant on assumptions on mortality rates (CMI 2020 model), rate of inflation, discount rate and rate of increase for salaries and pensions.	Every three years the actuary performs triennial valuations, the most recent being 31st March 2022. In the subsequent years the Actuary uses a roll forward method and provides the net pensions liability at 31 March 2023 (IAS 19).	Registered Actuary –Barnett Waddingham LLP	It is not possible to assess the accuracy of the estimated liabilities, without completing a full valuation. Using the roll forward approach should not introduce any material distortions. Note 37 and Note 5 provide the reader of the accounts with sensitivity analysis. A one year reduction in life expectancy reduces the pension liability by just over £73 million.	The Code requires curtailments and settlements during the year to be considered (rather than at the year end). A report was commissioned from the Actuary to show that the impact was not material.

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
Depreciation	Schedule of remaining useful lives of assets to be valued sent to valuer to review as at 31 December 2022. The estimated asset life is the length of time the authority is intending to extract economic benefits from the asset. The Valuer should assess the remaining useful life of the asset in its existing use. Estimated useful lives for new assets will be	The Code of Practice requires useful lives to be reviewed at least at the end of each financial year. There is an accounting policy for estimated useful life for new assets.	Independent RICS qualified valuer from NPS	Asset lives determine depreciation which is calculated on a straight line basis. Asset value / cost divided by asset life. Reducing balance method for depreciation could be considered but the NBV of assets on historic cost would not reach zero. Straight line depreciation is appropriate for the Authority. Note 5 sets out the major sources of estimation uncertainty. An increase of one year in the asset lives would reduce the annual depreciation charge for buildings, equipment and infrastructure by £2.6 million, £1 million and £8.2 million respectively.	No

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> • Assessment of degree of uncertainty • Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
	agreed with the valuer.				
Credit loss allowance	Head Accountants for each service identify larger debtors and whether an impairment (provision) is needed. The Head of Financial Systems and Processes reviews the corporate debt and the level of impairment required.	The Outturn Report is presented to Cabinet and shows the level of debt and an aged analysis. The report includes the level of impairment (commonly known as bad debt provision). There is adequate scrutiny of the approach and estimates.	An external expert is not used.	This is not a material estimate. Unsecured debt more than 3 months is not material. For corporate debt, the Head of Financial Systems and Processes reviews larger individual debts and assesses the need for individual provisions and then reviews the aged analysis of debtors and estimates the provision for the remainder.	There has been no change to the approach.

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> • Assessment of degree of uncertainty • Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
Provisions	The largest element of provisions relates to insurance and a report from an independent expert is commissioned every three years which is used as the basis of the provision and adjusted for current know factors in the market.	Independent review and monitoring of payments of claims during the year.	A report is commissioned from Gallagher.	The insurance provision has reduced gradually over the past several years to align with the independent review.	There has been no change to the approach.
Accruals	Head accountants for each service will estimate accruals based on	The accruals form part of the Outturn Report which is discussed with the	Service Accountants, where necessary, will discuss	Service accountants can provide to the auditor any consideration of alternative methods of how they calculated individual accruals.	There has not been any change

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
	<p>events known at year end. This knowledge is based on regular budget monitoring during the year and experience within each service.</p> <p>In the case of council tax and business rates estimates for year end – these are provided by the billing authorities but these technical adjustments do not affect the General Fund or usable reserves.</p>	<p>Director and Deputy Director of Finance and Public Value. Variances (year on year) are calculated from the lead schedule for the balance sheet where Head Accountants provide reasons for variances.</p>	<p>estimates and assumptions with service managers and heads of service.</p>		<p>in accounting method.</p>
Fair value of loans	Fair value can be assessed by	Disclosure is a requirement of the	Link Asset Service	Disclosure only –no impact on primary statements.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
	calculating the net present value of cash flows that are expected to take place over the remaining life of the borrowing and applying new borrowing rates.	Code. Schedule of borrowing with accrued interest is provided to the expert.		CIPFA has stated that the cost of redeeming borrowing is not considered an appropriate method of calculating fair value under the Code's application of IFRS13.	
PFI liability	Fair value can be assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the contract and applying new borrowing rates.	Disclosure is a requirement of the Code. Schedule of borrowing with accrued interest is provided to the expert.	Link Asset Service	Disclosure only –no impact on primary statements. CIPFA has stated that the cost of terminating the contract is not considered an appropriate method of calculating fair value under the Code's application of IFRS13.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
	<p>Expected future payments / gate fees were projected for the duration of the contract and the capital costs of the construction of the assets were calculated or known. The future payments were analysed into future service costs, repayments of liability and interest costs. PFI liabilities were recognised in the balance sheet. Each year the liabilities are reduced by the</p>	<p>The PFI assets are operational and costs of construction and prevailing lease rates were calculated.</p>	<p>At the time that the PFIs became operational the liabilities were recognised in the accounts. The estimates from the accounting models were provided by Grant Thornton for the Schools and EY for the Waste PFIs</p>	<p>This is an accounting model that is supposed to apply for the duration of the contract.</p>	<p>No</p>

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
Page 106	proportion of contract payments paid over to the operator according to the accounting model.				
fair value estimate of CCLA	A unit bid value is provided at 31 March by the fund manager and is multiplied by the number of units held by the Authority.	The CCLA investment is held on the balance sheet and value is updated at 31 March	CCLA	A bid market value is provided each year and is multiplied by the number of units held. A bid market value gives a more prudent and appropriate estimate than applying the mid market value. There is a 1.5% variation between the two methods of estimation.	No
fair value estimate of other equity instruments	Audited accounts for 3 previous years and applying net asset basis adjusted for minority shareholding for the Science Park.	The estimate is only changed following an independent professional valuation.	Link Asset Service	The previous valuation was 2020/21. The estimate is not material.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> • Assessment of degree of uncertainty • Consideration of alternative estimates 	Has there been a change in accounting method in year?
County Council					
	For NPS the price earnings ratio range was applied to the pre-tax earnings.				



Informing the audit risk assessment for Devon Pension Fund 2022/23



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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Devon Pension Fund's external auditors and Devon Pension Fund's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

For this report, we have called the Audit Committee 'those charged with governance', however we appreciate the Investment & Pension Fund Committee fulfils much of the responsibility normally associated with an Audit Committee. Where we have used the term Audit Committee, this term should be considered as either the Audit Committee and/or Investment & Pension Fund Committee. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Purpose

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

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This report includes a series of questions on each of these areas and the response we have received from Pension Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	<ul style="list-style-type: none"> • Negative investment returns resulting from geo-political instability, rising inflation and rising interest rates. • Outcome of triennial actuarial valuation.
<p>2. Have you considered the appropriateness of the accounting policies adopted by Devon Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	There are very few changes to CIPFA's Code of Practice for 2022/23. Consequently, the Authority's accounting policies are largely unchanged from the previous year.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Significant value of financial instruments. Some use of forward currency contracts.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	There have been no significant transactions outside the normal course of business.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Management is not aware of any material changes in circumstances that would lead to impairment of non-current assets in the Pension Fund.
6. Are you aware of any guarantee contracts? If so, please provide further details	Management is not aware of any material guarantee contracts related to the Pension Fund.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Management is not aware of any material loss contingencies and/or un-asserted claims in relation to the Pension Fund.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Nigel Giffin KC has provided advice in relation to a contributions payment received in 2019/20, in relation to discussions around the accounting treatment adopted by the employer for the payment. This is not relevant to the financial statements for 2022/23.

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General Enquiries of Management

Question	Management response
9. Have any of the Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Management is not aware of any attempted frauds regarding the Pension Fund.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link Asset for Treasury Management Barnett Waddingham for actuarial advice and valuations
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Management has not identified any assets where material credit / loss provisions may be required.

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Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Devon Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Devon Pension Fund's management.

Fraud risk assessment

Question	Management response
<p>1. Has Devon Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Pension Fund's risk management processes link to financial reporting?</p>	<p>The risk of material misstatement due to fraud is assessed as low.</p> <p>There is regular monitoring of budgets which would identify any material variances.</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions –such as payments.</p> <p>The financial statements are reviewed by the Director of Finance and Public Value and other members of the Finance Leadership Team.</p> <p>Reconciliations are carried out between Finest and data held by the Fund Custodian.</p> <p>Internal Audit reviews the system of internal controls and the main accounting systems. Devon Audit Partnership (DAP) provides a regular update to the Audit Committee regarding its work and key findings. DAP is due to present its annual report on the Pension Fund for 2022/23 to the Investment and Pension Fund Committee on 16 June.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified.</p> <p>No significant risk of fraud to the Statement of Accounts or disclosures has been identified.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Devon Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>No significant risk of fraud to the Statement of Accounts or disclosures has been identified.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The internal audit team maintain a record of incidents that have occurred during the year. This can be provided to external audit on request.</p> <p>The Pension Fund Risk Register is reviewed on a quarterly basis by the Pension Board and annually by the Investment and Pension Fund Committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Devon Pension Fund where fraud is more likely to occur?</p>	<p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified.</p> <p>Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>Management has not identified any particular locations where fraud is more likely to occur.</p>

Fraud risk assessment

Question	Management response
<p>6. What processes do Devon Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>Awareness is key to identifying the possibility of fraud and as such it is essential that staff are aware of the possibility of fraud within their working environment. We have an e-learning “fraud awareness” module in place to help managers increase their fraud awareness.</p> <p>Our internal audit team, Devon Audit Partnership (DAP) issues regular fraud bulletins to raise awareness of the possibility of fraud; identify the circumstances of their occurrence and the controls that should be in place and adhered to by staff to minimise the risk of similar frauds taking place within the authority.</p> <p>Where areas of fraud risk are identified, these are reviewed by management and subject to audit review to ensure the controls in place are fit for purpose and being adhered to.</p> <p>All allegations of fraud are taken seriously and are investigated promptly by management in conjunction with Internal Audit, HR and Legal Services as applicable.</p> <p>The annual internal audit plan includes time for fraud prevention, detection and investigation. This plan is subject to annual review and takes into account any areas of concern which have been raised by colleagues within other local authorities, or national initiatives in areas where fraudsters are known to operate.</p> <p>Through the work undertaken by Internal Audit, Trading Standards and various law enforcement partners, all significant findings are advertised via the media and the public website to raise awareness of the implications of what can happen to a fraudster if they are found out and a conviction successfully obtained.</p> <p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified. Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>In May 2018 the former Counter Fraud team of Plymouth City Council joined DAP. This enables DCC to access a range of specialist services, including 7 qualified Counter Fraud Specialists. In addition, the internal audit team contains a number of audit professionals (27 staff), who are trained at designing systems and controls to prevent and detect fraud and to investigate this should it arise.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Devon Pension Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Management considers that there is a strong control environment for Devon County Council and Devon Pension Fund.</p> <p>Segregation of duties is embedded in the control environment and for each major financial system.</p> <p>Devon Audit Partnership undertakes a thorough programme of internal audit reviews and reports the key findings of each audit and its overall conclusion to the Audit Committee. In its annual report to the Audit Committee in June 2022 it concluded that there was “Reasonable Assurance” on the adequacy and effectiveness of the internal control framework within the County Council.”</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions –such as payments. The financial statements are reviewed by the Director of Finance and Public Value and other members of Finance Leadership Team.</p> <p>Management has not identified any particular areas for increased risk of override of controls or inappropriate influence over the financial reporting process. There is regular monitoring of income and expenditure against the budget. Summary reports are provided to members</p> <p>At year end overall financial performance in the financial statements is reconciled back to the Outturn Report reported to Cabinet.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Management has not identified specific areas where there would be fraudulent misreporting in the financial statements.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Devon Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>These are communicated through messages via the Insider publication, Core Briefings, senior management team meetings etc. as part of the management process.</p> <p>In addition, guidance is available to staff on the relevant policies around business practices and ethical behaviour; including within the Code of Business Conduct the need to be transparent and register gifts and hospitality offered but declined.</p> <p>A short training and awareness session has recently been produced by our Counter Fraud Team and can be found on DEL (Devon Learning) under the Essentials for All category.</p> <p>There is a new E learning session on fraud. https://inside.devon.gov.uk/news/are-you-fraud-aware/</p> <p>Our Anti-Money Laundering Policy has recently been updated(SharePoint Private) and we encourage all employees, especially those involved with financial transactions, to make themselves aware of the policy.</p> <p>We have prepared a short training video with the aim of raising awareness of our Anti-Money Laundering Policy. Anti Money Laundering Guide for Council Staff -YouTube</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Authority has in place controls to reduce the risk of fraud –including segregation of duties. Controls are reviewed by Devon Audit Partnership and any significant weaknesses are reported to the Audit Committee.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Authority is not aware of any related party relationships or transactions that could give rise to instances of fraud.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>When preparing the annual internal audit plan, the internal audit provider (Devon Audit Partnership) will bring to the attention of the audit committee the important role that members play in setting a zero-tolerance approach for fraud.</p> <p>When undertaking internal audit assignments all auditors will assess the control environment against the threat of fraud and corruption. Auditors will assess the effectiveness of controls in place to prevent and detect fraud and make recommendations for further improvement if required.</p> <p>The internal audit plan will refer to time set aside to respond and investigate concerns / allegations of fraud and corruption.</p> <p>Internal Audit (Devon Audit Partnership) provides reports to the Audit Committee on a six monthly and annual basis; part of this report refers to counter fraud arrangements.</p> <p>The reports will refer to counter fraud work (such as the National Fraud Initiative) and provide a summary of the frauds / irregularities that the Authority has faced in the year. As this is a public report, details of the frauds are reported at a summary level, but more details can be provided to members if they request. In addition, DAP will also take the annual audit plan for review to both the Devon Pension Board and the Investment and Pension Fund Committee.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The County Solicitor has overall responsibility for the maintenance and operation of the whistleblowing policy and to ensure that a central record is kept for all referrals.</p> <p>Internal Audit maintains a record of referrals of any financial irregularities include whistleblowing. Each year a copy of this record is provided to external audit.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports been made under the Bribery Act.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Devon Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make enquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Devon Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p>	<ul style="list-style-type: none"> • Regular review of internal processes and controls, including TPR Code of Practice toolkit and internal audit review. • Annual breaches report created and presented to the Devon Pension Board. • Robust risk register is in place which is reviewed regularly and presented to the Devon Pension Board on a quarterly basis.
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>In the event of litigation or claims, Peninsula Pensions work closely with the relevant authority, Director of Finance and Public Value and the DCC in-house legal team. The majority of claims in respect of pensions administration are dealt with via the Internal Dispute Resolution Procedure.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>Management is not aware of non-compliance with any laws and regulations.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Management is not aware of any actual or potential litigation or claims that would affect the financial statements</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Devon Pension Fund have in place to identify, evaluate and account for litigation or claims?</p>	<p>In the event of litigation or claims, Peninsula Pensions work closely with the relevant authority, Director of Finance and Public Value and the DCC in-house legal team. The majority of claims in respect of pensions administration are dealt with via the Internal Dispute Resolution Procedure.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>An in-depth review of the Devon Pension Fund was conducted by The Pension Regulator in 2018/19 which found no issues of non-compliance. We are not aware of any issues of non-compliance.</p>

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Related Parties

Matters in relation to Related Parties

Devon Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Devon Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Pension Fund, or of any body that is a related party of the Pension Fund.

disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Pension Fund's perspective but material from a related party viewpoint then the Pension Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Devon Pension Fund's 2021/22 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Devon Pension Fund whether Devon Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions. 	<p>Each year the note to the Statement of Accounts is updated for any changes to related parties. This note is comprehensive.</p>
<p>2. What controls does Devon Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Chief Officers (Chief Executive and those reporting to the Chief Executive) and Councillors are contacted in March and asked to disclose any related party relationships. The ledger is interrogated for any transactions with disclosed organisations. If responses have not been received then reminders are issued and further reminders if required. Where responses are not forthcoming then the Register of Interests is reviewed by Finance to identify potential disclosures. Non-DCC Members of the Investment and Pension Fund Committee are also contacted.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Significant transactions are subject to authorisation –whether they are with related parties or not. There is segregation of duties –one officer will process claims and another will approve them according to the Council's Scheme of Delegation.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Pension Fund operates the same financial controls to significant transactions regardless of whether or not the transactions are of a regular nature or a one-off.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Devon Pension Fund will no longer continue?</p>	<p>The Council is required to act as the administering authority of the pension fund by the Local Government Act 1972, and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that the funds held are invested. There are no indications that this will be changed.</p> <p>Peninsula Pensions provide a benefits administration service for the Devon Pension Fund but are a DCC in-house team. There are no plans or proposals to outsource the services provided by Peninsula Pensions.</p> <p>Management of the Fund's investment allocations, previously outsourced to a variety of external investment managers is now 95% managed by the Brunel Pension Partnership, a company owned jointly by 10 LGPS administering authority, including DCC. Brunel make available a variety of different investment funds for the DCC Pension Fund to invest in.</p>
<p>2. Are management aware of any factors which may mean for Devon Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>The Authority is not aware of any factors which mean that statutory services will no longer be provided.</p>

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by Devon Pension Fund, does Devon Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Devon Pension Fund to cease to exist?</p>	<p>The CIPFA Code for Local Authority Accounting requires the Statement of Accounts to be prepared on a going concern basis.</p> <p>“...Going concern assumption</p> <p>2.1.2.9 Going concern – an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern....”</p> <p>There is no reason whatsoever why there would be any departure from this basis. Management is satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements.</p>
<p>4. Are management satisfied that the financial reporting framework permits Devon Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The notes to the Pension Fund Statement of Accounts will set out the estimations of uncertainty. As per note 3 of the 21/22 Statement of Accounts, these are unlisted assets (namely private equity, infrastructure and debt funds) and Actuarial present value of promised retirement benefits.
2. How does the Pension Fund's risk management process identify and address risks relating to accounting estimates?	Key uncertainties will be set out in the notes to the accounts (see Note 3 of the 21/22 Statement of Accounts). The material assumptions affect the fund investments assets pooled funds and the net liability to pay pensions.
3. How does management identify the methods, assumptions or source data, and the need for changes them, in relation to key accounting estimates?	<p>The Authority would only consider that there was a need to change accounting estimates if this was required by a change to the Code or errors identified with the accounts.</p> <p>The Authority has not identified any issues that would require the need to change the method of calculating accounting estimates.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>Where the valuation of pooled infrastructure funds in the following period differs significantly from estimates in the Statement of Accounts then the impact would be identified in the following year and reported in the Investment Management Briefing report.</p> <p>Actuarial present value of promised retirement benefits estimations are done on a yearly basis and changes would be reported in the following years pension Funds statement of Accounts.</p>
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	<p>We do not expect to make changes to the estimation processes in 2022/23.</p> <p>Actuarial roll forward data will have been refreshed as part of the triennial valuation.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>Management assigns work to appropriately qualified staff with the required skills. If those skills or qualifications are not available in-house then the specialised services will be sought externally.</p> <p>For the assessments of the pooled funds the external fund managers prepare these valuations in accordance with International Private Equity and Venture Capital Valuation Guidelines.</p> <p>In order to assess the Funded Obligations and issue an IAS26 report under International Accounting Standard 19 then specialist actuarial skills have been commissioned from a registered actuary, Barnett Waddingham.</p>
7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>The Pension Fund Accounts use fair values as per accounting code requirements. The Pension Fund uses only recognised and certified external organisations who have the specialised services and skills to undertake the work.</p>
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>If there are unexpected variances or movements on balances then management will make enquiries of the expert, but the Authority relies on the professional experience and qualifications of the experts –hence why they are commissioned. The actuary and fund managers are commissioned to provide estimates for which there is no suitably qualified in-house resources.</p>
<p>9. What is the nature and extent of oversight and governance over management’s financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management’s process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Management reports any uncertainties about assumptions used to the Investment Committee. The Pension fund Statement of accounts, which includes the estimates of the Actuary and the fund managers, are presented to the Audit Committee.</p> <p>The Code prescribes the accounting policies which are to be used and are disclosed in the accounts.</p>

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Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Appendix A sets out the significant accounting estimates.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The management arrangements for the accounting estimates, as detailed in Appendix A is reasonable.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Director of Finance and Public Value certifies the Statement of Accounts presents a true and fair view and the Audit Committee receives a report from external audit regarding the findings of its work.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 2 investments	NAV based pricing, where prices are published and/or are based on valuation of underlying assets which are listed on a public exchange.	Market conditions, historical data and financial projections.	External Fund Managers and independent investment advisors.	The Pension Fund accounts sets out material uncertainties.	No
Level 3 investments	Based on cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines.	Market conditions, historical data and financial projections.	External Fund Managers and independent investment advisors.	The Pension Fund accounts sets out material uncertainties.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Actuarial Present Value of Promised Retirement benefits	This has been assessed using projected unit credit method, an estimation of the pensions that will be payable in future years dependant on assumptions on mortality rates(CMI 2020 model), rate of inflation, discount rate and rate of increase for salaries and pensions.	Every three years the actuary performs triennial valuations, the most recent being 31stMarch 2019. Actuary uses a roll-forward method to update the estimate.	Registered Actuary – Barnett Waddingham LLP	It is not possible to assess the accuracy of the estimated liabilities, without completing a full valuation. Using the roll-forward approach should not introduce any material distortions.	No



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Audit Committee
25 September 2023
DF/23/87

Statement of Accounts & Annual Governance Statement for 2022/23 Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to:

1. Review and approve the Annual Governance Statement for 2022/23;
2. Review and approve the Authority's Statement of Accounts for 2022/23;
3. Review and approve the Pension Fund Statement of Accounts for 2022/23;

2) Introduction

The purpose of this report is to ask Members to approve the Annual Governance Statement and Statement of Accounts for 2022/23 for the County Council and Devon Pension Fund.

The Statement of Accounts has been prepared according to CIPFA's Code of Practice on Local Authority Accounting 2022/23. There are no significant changes to the Code.

Parliament has brought forward by two months the deadlines in the Accounts and Audit Regulations for the 2022/23 accounts. The publication deadline for the unaudited accounts was 31st May 2023 (31st July 2022) and the date by which the Audit Committee has to approve the accounts is 30th September 2023 (30th November 2022).

The Authority published the unaudited Statement of Accounts before the end of June 2023, in line with the report to the last meeting of the Audit Committee on 20th June (DF/23/57). This report outlined the technical accounting challenges caused the national issue of the triennial valuation of Pension Funds on delayed audit opinions for 2021/22.

3) Annual Governance Statement

The Council is required, annually, to prepare and publish a Governance Statement in accordance with CIPFA/SOLACE guidance and comply the Accounts and Audit (England) Regulations 2015, reviewing its system of internal controls in line with best practice. The Council is required to publish the statement alongside the Annual Statement of Accounts.

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In recommending the approval of the Annual Governance Statement (attached at the end of the Statement of Accounts document) the Senior Leadership Team, Directors and Heads of Service confirm that the organisational, financial, compliance and operational key controls referred to in the Statement continue to be appropriate and have operated, effectively, during the year in question.

4) Key messages – Authority’s Accounts

In 2022/23 the Authority's reserves (including general fund balance) and carry forwards reduced by £61.3 million.

- Earmarked reserves reduced by £28.4 million (£1 million transfer to General Fund Balance) supporting the 2022/23 budget and one off items of expenditure when the County Council approved the budget in February 2022.
- Carry forwards reduced by £30.1 million - mainly the use of COVID grants and balances from the Integrated Care Agreement with the NHS.
- Although school carry forwards belong to individual schools - they still need to be consolidated and shown in the Authority's balance sheet. These reduced over the year by £3.9 million to £20.8 million.
- The movements are offset by the increase in the General Fund Balance of £1.1 million (£1 million budgeted transfer from reserves and the £156,000 outturn).

At 31 March 2023 the revenue reserves, carry forwards and balances available to the Authority (excluding schools balances) reduced by £57.4 million to £181.3 million (a reduction of 24% in the year 2022/23).

- Earmarked revenue reserves are £107.5 million (£136 million at 31 March 2022)
- Non schools budget carry forwards are £57.8 million (£87.9 million at 31 March 2022)
- General Fund balance is £16 million (£14.8 million at 31 March 2022).

The following table was presented in the Outturn report to Cabinet on 14 June and is included in the report of the Director of Finance and Public Value and Chief Executive. It explains the reduction in earmarked reserves.

	£000	£000
Budget Book (February 2022)		
Contribution from reserves to support the budget	(22,938)	
Transfer from Budget Management to General Fund	(1,000)	
Use of Reserves	<u>(6,949)</u>	
Budgeted reduction in earmarked reserves		(30,887)
Additional use of reserves during the year		(425)
Outturn Contribution to Budget Management Reserve		1,500
Underspend on Public Health Ring-fenced Grant		1,376
Net reduction in earmarked reserves		<u>(28,436)</u>

Capital grants unapplied have reduced by just over £20 million and capital receipts have increased by just over £6 million.

Government regulations require that any negative DSG balance be held as a DSG Adjustment Account and not netted off from our Reserves. Initially these regulations were to be applied to the three financial years to 31 March 2023 but this statutory requirement has been extended for a further three years to 31 March 2026. What will happen to the balance after that time is unclear. The following table sets out the balances on this ring-fenced account and how the deficit on the High Needs Block increased by £38.9 million in 2022/23 to £125.4 million at 31 March 2023.

Dedicated Schools Grant Adjustment Account

	1 April 2022 Movement		31 March 2023
	£000	£000	£000
High Needs Block - SEND	(86,529)	(38,908)	(125,437)
De-delegated, Central and Early Years Block and Growth Fund	5,115	1,560	6,675
Total (Deficit)	(81,414)	(37,348)	(118,762)

The Authority now has a positive Balance Sheet at 31st March 2023 of £840 million as a result of a significant reduction in the pension liability as assessed by the actuary. The Pension Reserve deficit was £1,310 million at 31 March 2021 and this has reduced two years later to just under £243 million. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term. These actuarial assumptions estimate many long term projections including mortality, pay and pension inflation and the discount rates applied to future benefits and pension asset returns.

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

At the time of writing this report the auditors had not yet issued opinions for the years 2020/21 and 2021/22. Grant Thornton will provide the Audit Committee with an update of progress.

5) Key messages – Pension Fund Accounts

2022/23 has been a difficult year for investment markets. Geo-political concerns following Russia's invasion of Ukraine, along with rising inflation and interest rates, have weighed heavily over investment markets. Under the circumstances the investment return for the year of -1.5% could have been worse. The value of the Devon Pension Fund fell from £5.412 billion, as at 31 March 2022, to £5.313 billion as at 31 March 2023. The Fund's investment return was below the Fund's strategic benchmark (a weighted average of the underlying benchmarks) of +0.9% but compared well with the median LGPS universe average of -3.3%.

The 2022/23 Pension Fund accounts is informed by the most recent triennial valuation at 31 March 2022, where the actuary has concluded that the Pension Fund has a funding level of

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98%. i.e. the assets were 98% 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 £88.6m.

This is an improvement on the 91% funding level at the previous triennial valuation in March 2019.

External audit work on the Pension Fund accounts for 2022/23 is more advanced than on the Authority accounts and any minor disclosure amendments required by external audit have been actioned.

6) Strategic Plan

There are no Strategic Plan issues associated with this report.

7) Financial Considerations

There are no direct Financial Considerations issues associated with this report other than to note the use of reserves and movement of the Authority's balance sheet.

8) Legal Consideration

There are no specific Legal Considerations or issues associated with this report other than to note that the Committee approval of the Statement of Accounts and Annual Governance Statement by 30 September is required under Regulations 9 and 10 of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Amendment) Regulations 2022.

9) Environmental Impact Considerations (Including Climate Change)

There are no specific Environmental Impact Considerations or issues associated with this report.

10) Equality Considerations

There are no specific Equality Considerations associated with this report.

11) Management Considerations

This report supports the Council's overall integrated assurance to internal control and financial governance.

12) Public Health Impact

There is no specific impact on Public Health in connection with this report.

13) Summary/Conclusions/Reasons for Recommendations

The Committee is recommended to approve the Annual Governance Statement and the Statement of Accounts, contained in the attachment to this report.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All
Local Government Act 1972

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<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
Nil		

Unaudited Statement of Accounts
and
Annual Governance Statement
2022/23

Statement of Accounts and Annual Governance Statement 2022/23

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Report of the Director of Finance and Public Value and the Chief Executive

Introduction

Welcome to the 2022/23 financial statements for Devon County Council.

This report includes a brief overview of the County Council, its objectives, performance and service provision for 2022/23. It also provides a summary of the financial performance of the Council as detailed later in the Statement of Accounts.

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 36) 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 (CIES) (page 30)

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 on the provision of services of just over £183.4 million in 2022/23 compared with a deficit of £40.6 million in 2021/22. The increase in net expenditure of £142.8 million is shown in the following table.

2021/22	2022/23	Movement
£000 Deficit on provision of Services	£000	£000
15,441 Technical Adjustments - no impact on reserves	84,742	69,301
(12,683) Use of Reserves and carry forwards	61,320	74,003
37,858 DSG deficit transferred to adjustment account	37,348	(510)
40,616	183,410	142,794

- Technical adjustments refer to adjustments that are required to be included in the CIES by the Code but are reversed out in the MIRS so that they don't have any impact on the Authority's usable reserves. At £84.7 million these adjustments are £69.3 million higher than 2021/22. Note 8 details all these adjustments. One of these adjustments is depreciation and revaluation adjustments which is £14 million higher than the previous year. Capital grants and contributions are £20 million lower than the previous year and the assets written out when sold or disposed is £26 million higher.
- In 2022/23 the Authority's reserves and carry forwards reduced by £61.3 million
 - Earmarked reserves reduced by £28.4 million (£1 million transfer to General Fund Balance) supporting the 2022/23 budget and one off items of expenditure when the County Council approved the budget in February 2022.
 - Carry forwards reduced by £30.1 million - mainly the use of COVID grants and balances from the Integrated Care Agreement with the NHS.
 - Although school carry forwards belong to individual schools - they still need to be consolidated and shown in the Authority's balance sheet. These reduced over the year by £3.9 million
 - The movements are offset by the increase in the General Fund Balance of £1.1 million (£1 million budgeted transfer from reserves and the £156,000 outturn).

Movement in Reserves Statement (page 31)

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 64.

The Revenue and Capital Outturn 2022/23 was presented to Cabinet on 14th June and detailed the budget variances and movements to and from general balances and Earmarked Reserves.

The debit balance on Unusable Reserves reduced by just over £655 million (Note 23) because the Pension Reserve (deficit) has decreased by just under £654 million.

The net movement of £1 million in other Unusable Reserves is explained by an increase of £45 million in the following reserves.

- An increase in the Capital Adjustment account of just under £22 million;
- Increase in the Revaluation Reserve of £13 million; and
- the Collection Fund Adjustment Account has increased by just over £10 million. This movement reflects the recovery of council tax income projections from estimates made by Devon districts during the Pandemic in 2020/21.

which are partly offset by a net reduction of £44 million in other unusable reserves:

- An increase in the DSG Adjustment Account of just under £38 million (debit balance) and smaller decreases in credit balances of £6 million.

Usable Reserves have reduced by just over £75 million, consisting of three elements

- Capital Grants Unapplied have reduced by just over £20 million; and
- General Fund, Schools and Earmarked Reserves have reduced by just over £61 million (Note 9) explained earlier in this report.
- This overall reduction has been partly offset by an increase in the Capital Receipts Reserve of just over £6 million.

Balance Sheet (page 32)

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 net pension liability continued to reduce in 2022/23 (which followed a large reduction in 2021/22). At 31 March 2023, the Authority's assets exceed its liabilities by £840 million (£259.9 million at 31 March 2022). The Pension Liability of just under £262 million (Note 24, Page 95) is significantly lower than £1.3 billion two years ago (March 2021) as a result of the actuary reducing life expectancy projections and interest rates affecting the discount rate for liabilities. The 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. More information on Pensions is provided within Note 37 on page 124.

Cash Flow Statement (page 33)

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

Since the introduction of austerity to public finances from 2010 the financial landscape fundamentally changed for Local Government. The main source of Government Funding used to be Revenue Support Grant, RSG. At its peak in 2013/14 RSG for the authority was £134.8 million; by 2019/20 it had reduced to just over half a million pounds. Since 2019/20 RSG has increased by inflation but inflation applied to £500,000 generates relatively little additional income.

This level of reduction in our funding coupled with demand pressures and price increases has resulted in ongoing savings and income initiatives of just over £371 million being required over 13 years.

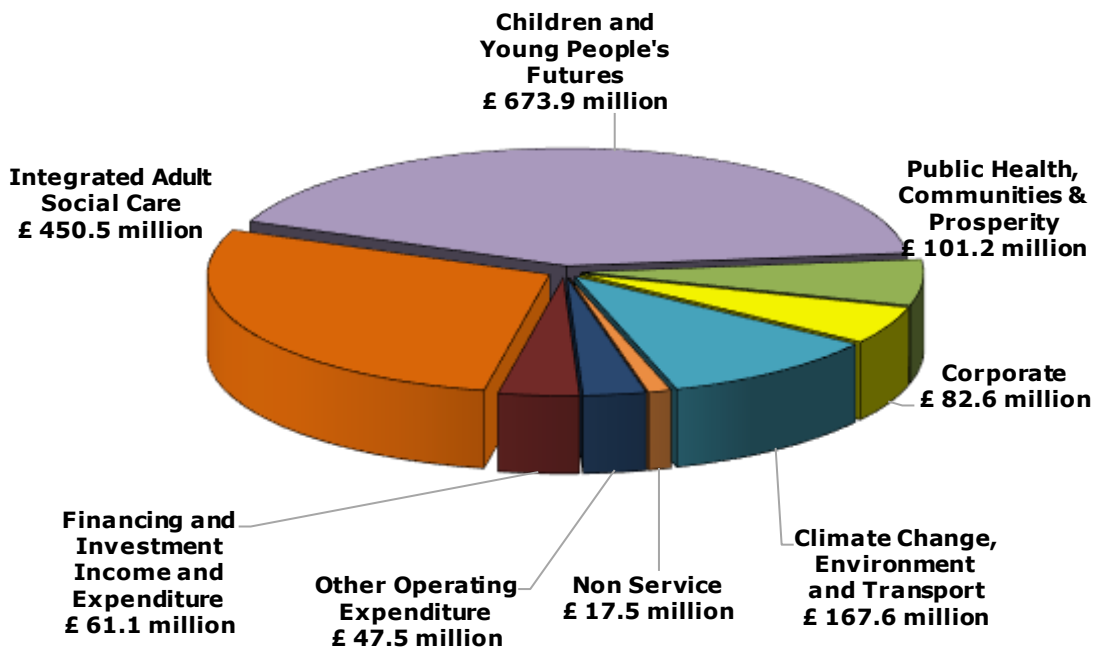
There are significant ongoing pressures in both adult and children's services with the greatest area of concern being the funding shortfall on the Dedicated School's Grant High Needs Block. For the six years 2020/21 to 2025/26 the DSG Deficit is transferred from the Authority's Usable Reserves to a ring fenced "unusable" adjustment account. The Local Authorities (Capital Finance and Accounting) (England)(Amendment No 2) Regulations 2022 do not set out what will happen after March 2026.

The SEND element of the Dedicated Schools Grant year-end position is a shortfall of £38.9 million. When combined with £86.5 million deficit brought forward from 2021/22 the cumulative deficit is just over £125.4 million. This is now being held on the Dedicated Schools Grant Adjustment Account.

Financial performance

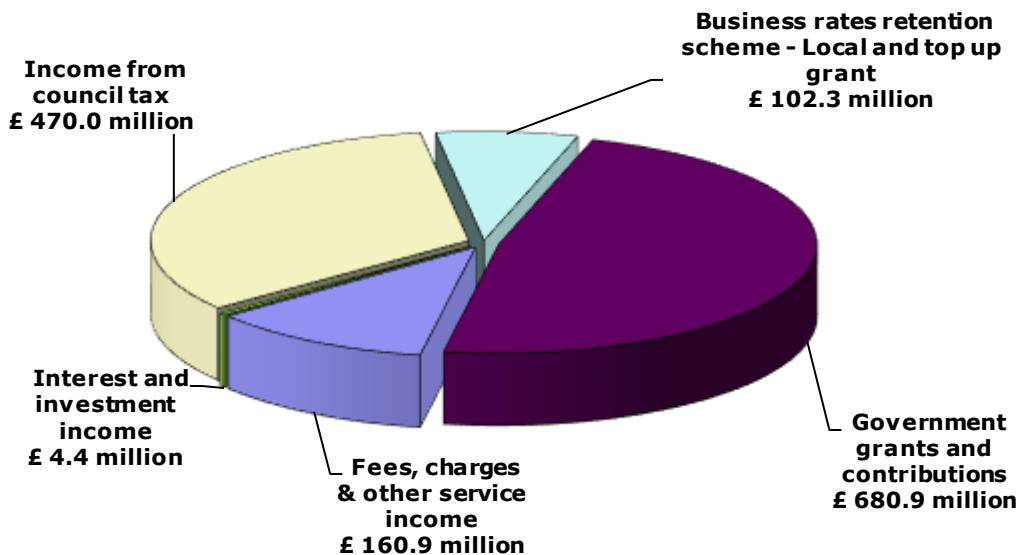
The Code requires that the Comprehensive Income and Expenditure Statement takes the format of how the Authority reports its own financial performance through budget monitoring during the year against the budget that was approved by Council in February 2022. Gross expenditure totalled just under £1,602 million 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 over £1,418 million was received during the year. Chart 2 shows how this is derived.

Chart 2: Gross Income



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 2022/23 in which budget pressures and risks have been identified. The outturn underspend of £156,000 is achieved after a contribution to the budget management reserve of £1.5 million and a carry forward of £500,000 into 2023/24 for Highways. The final outturn position is an improvement from the £3.6 million overspend forecast outturn which was reported to Cabinet on 8th March and a significant improvement on the £30.5 million forecast overspend at month 2 at which time there was a further £10 million risk identified relating to in year inflationary pressures.

The organisational wide response to the financial challenges faced by the Authority, resulted in £25.4 million of additional in year savings, income and alternative applications of funding being identified. Delivery of savings and additional income contained within the budget totalled £33.7 million against planned savings of £38.7 million.

When the Council approved the 2022/23 budget in February 2022, it agreed to use just under £29.9 million of earmarked reserves to support its revenue expenditure and invest to save initiatives as well as funding of various one-off projects including service transformation economic recovery, Bridges, fostering network, Special Educational Needs staffing amongst others. Actual use of these reserves is £425,000 higher than budgeted but this has been more than offset by an outturn contribution of £1.5 million to the Budget Management Reserve. Further detail is provided in the table on Earmarked Reserves later in this report.

Integrated Adult Social Care

The outturn for Adult Care and Health services is an overall overspend of £2.3 million.

Adult Care Operations and Health outturn is £4.8 million overspent, which reflects significant pressure on unit rates and higher residential and nursing placements volumes and complexity present throughout the year. These pressures have been partially offset by one off grant monies and underspends on staffing budgets which reflect the difficulty in recruiting care management staff.

Adult Commissioning and Health outturn is £2.5 million underspent, due to an under spend on Mental health placements, further core staffing vacancies, central budget underspends and temporary external funding.

Children and Young People's Futures

The overall position for Children's Futures is an overspend of £19.6 million excluding the Dedicated Schools Grant and after taking into account recommended carry forwards of £762,000.

The position for Children's Social Care and Health & Wellbeing including the Public Health Nursing Service is a net overspend of £12.7 million.

The number of children in our care rose by 6% during the year and many of these children need complex care arrangements. Of the £14.2 million overspend on placements, just under £10 million relates to higher prices with just over £4 million due to the higher numbers of children in care. Increased caseloads and court activity resulted in an overspend on legal costs of just under £400,000.

The number of Special Guardianship and Adoption Orders granted has continued to grow leading to £1.4 million overspend against budget.

Additional staffing costs due to increased demand and use of agency staff to cover front line vacancies offset in part by slippage in recruitment and retention led to a net overspend of £1.5 million.

During the year Phase 1 of the Leadership reorganisation was implemented. Phase 2 implementation was deferred resulting in an underspend of £1.9 million.

The Public Health Nursing Service underspent by £1.2 million mainly due to staff vacancies and lower accommodation costs. £1 million is ring-fenced Public Health Grant, £200,000 is core revenue budget savings.

In-year savings implemented through the Financial Sustainability Programme of work and identification of alternative funding sources amounted to £2.7 million.

For Education Learning and Inclusions Services (General Fund) the final position is an overspend of £6.8 million. The most significant overspend is within personalised transport (£5.3 million), the result of growth in demand and inflationary increases of 30% linked with cost of living and fuel. Home to School Transport has been similarly impacted with £2.9 million additional costs.

Savings within Core Services of £1.4 million have been achieved, as a result of staff vacancies, efficiencies and additional income.

Education and Learning spending on schools is funded from the Dedicated Schools Grant (DSG). The in-year SEND deficit totals just over £38.9 million, individual school reserve balances held by the authority total £20.8 million and ringfenced balances of £6.7 million mean the DSG is overspent by £11.5 million

There continues to be increased demand on Special Educational Needs and Disabilities (SEND), in particular, the growing demand on Education Health Care Plans (EHCP) and SEND placements within the independent sector.

The cumulative DSG deficit at the close of 2022/23 is £125.4 million. Devon has had a number of discussions with the DfE during the year and has now been formally invited to progress discussions as part of the next tranche of the Safety Valve Intervention Programme.

There is a government requirement to show DSG surplus and deficit balances (excluding individual schools' balances) as a DSG adjustment account.

Public Health, Communities and Prosperity

The outturn for Public Health, Communities and Prosperity shows an overall underspend of just under £2 million after taking into account grants and contributions carry forward, and other carry forward requests.

Citizen Engagement is overspent by £45,000 due to inflationary pressures on IT licences and professional fees.

Communities and other services are underspent by £1.2 million (before carry-forward requests). Additional in year savings identified, and unspent Locality budgets, account for the majority of this underspend. The balance is attributable to slippage on programme delivery and one-off alternate funding sources for core staff.

Economy Enterprise and Skills is underspent by £1.4 million (before carry forward requests). Additional in year savings account for a third of this. Delayed match funding requirements and slippage on the Trading Standards system implementation account for another third. The balance is as a result of vacancy savings, slippage in activity and increased income generation.

Public Health underspent by just under £1.4 million against the Public Health Grant. Service delivery has largely increased since the pandemic but in some areas capacity is not available or the demand has not risen as expected. Unbudgeted costs have been incurred supporting Food and Fuel Insecurity, agenda for change and children's centres. As a ring-fenced grant this amount has been added to the statutory public health reserve.

Corporate Services

The outturn for Corporate Services shows an overall underspend of £2.3 million after the carry forward of grants and contributions, and any other carry forward requests.

Legal and Democratic Services has underspent by £151,000 largely due to income generated from the continuing demand for ceremonies delivered by the Registration Service, combined with vacancy slippage. This offset pressures within Legal Services driven by a combination of increased demand from Children's Social Work and difficulty in recruiting permanent lawyers, as well as unbudgeted expenditure incurred by the Coroners Service.

Digital Transformation and Business Support are showing an underspend of £1.7 million with the decision to pause the current ICT Roadmap (taken as part of the Financial Sustainability Programme) accounting for the majority of this. Inflationary pressure on building maintenance and facilities management were mitigated by savings generated from vacancy management and increased income generation from services including the Farms Estate and Devon Norse.

Organisational Development underspent by £287,000 largely as a result of staff turnover and vacancy management.

Human Resources delivered an underspend of £178,000 despite increased demands on the service which have made it necessary to write-out £330,000 of historic savings plans. The underspend was largely generated by additional external job advertising and health and safety training income.

The position for the Finance and Public Value service is a net overspend of £61,000 attributable to four main areas: unbudgeted external audit fees; the partial non-achievement of savings plans linked to unfunded pre-LGR pensions; a shortfall in Client Financial Services Deferred Payment income; and a shortfall in Court of Protection fee income. The scale of the overspend was mitigated by additional income generated from supporting externally funded projects.

Climate Change, Environment and Transport

The overall position for Climate Change, Environment and Transport, after carry forward requests, is an underspend of just over £5.5 million.

The Highways and Traffic Management service has overspent the budget allocation by £160,000. Additional expenditure required to repair the increased number of potholes

arising during the last quarter of the year totalled just under £1.9 million. However, this was largely mitigated by an over-achievement of income from Highways of fees of £900,000 a one-off adjustment to the value of salt stocks of £400,000 and savings achieved due to the relatively mild start to the winter gritting period.

Expenditure of £7.4 million 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 £7.2 million has been generated, leaving a shortfall against expenditure of £200,000. The balance of the reserve has reduced from £2.1 million to £1.9 million at 31st March 2023.

Savings totalling £961,000 have been achieved within Infrastructure Development, mainly resulting from a review of charge out rates to ensure full cost recovery is achieved.

Despite facing significant inflationary pressures, the Waste services has delivered a net underspend of £3.6 million. The amount of residual household waste has fallen substantially during the year which has reduced the expenditure required for disposal across all treatment types. One-off contractual items have also contributed to the underspend.

The Planning, Transportation and Environment services have delivered an underspend position of just under £1.1 million. Savings totalling £640,000 have been achieved from a reduction in staffing costs throughout the year and additional planning and inspection fee income. Further savings have been achieved from a reduction in expenditure on road safety activities and the County Hall travel plan.

Other Items

The national staff pay award for 2022/23 (£1,925 for each full time employee) turned out to be £6.5 million more than the 2% used to set the budget in February 2022. Part of this cost pressure has been met by not making the planned contribution to the insurance provision of £1 million and a further £1 million underspend where the contingency for emergencies (Bellwin) was not required.

The Authority's borrowing is at fixed rates at the time the borrowing was taken out (before 2009) but interest income on balances depends on current interest rates. Increases in the Bank of England base rates have resulted in additional income of almost £3.5 million more than budget.

The increasing pay costs have resulted in an overspend of £116,000 for the Apprenticeship Levy but they have also resulted in an underspend of almost £1.7 million on the Pension Contribution Discount.

The Council works very closely with Health and towards the end of 2020/21 a new Integrated Care Agreement was setup. Health contributed to this fund and by 31 March 2022 just under £41 million was carried forward into 2022/23, of which £14 million was transferred to support wider health and social care budgets leaving a carry forward balance of just over £27 million at the end of the year.

The Better Care Fund has underspent this year and the Authority's share is £1.6 million to support outturn. In addition, just over £6.6 million of the Improved Better Care Fund Grant is being carried forward into 2023/24.

Capital Financing Charges are £997,000 less than budgeted due to the underspending on the Capital Programme; more details are provided later within this report.

The one off budget of £600,000 for Council Tax Hardship Support has not been spent. Additional ongoing support for Citizen's Advice and Growing Communities Together of £250,000 each year has been incorporated into the 2023/24 budget.

The Authority received a new grant of £1.4 million for additional responsibilities dealing with Domestic Abuse, where the additional costs had already been incorporated into the service budget.

The national business rates levy account is held by Government to help manage the risk if any local authorities incur business rates losses to such an extent where they enter the "safety net." When DLUHC decides that the balance on previously collected levies is no longer needed it distributes to all local authorities. In March 2023 DLUHC distributed £100 million nationally and the Authority's share is £861,000.

Overall there has been a favourable movement of £2.2 million on business rates (pooling gain and levy distribution).

There is additional provision for the Authority's bad debt of £352,000.

The Local Service Support Grant has increased by £387,000, and there are other small grant variations.

In response to the COVID-19 outbreak central government continued to put in place a number of grant funding streams to help support local authorities in responding to the pandemic. Just over £22 million was brought forward from 2021/22. The Authority spent £12.5 million in 2022/23 and carried forward a balance of just under £1.9 million into 2023/24 in line with specific grant terms and conditions leaving an underspend of just over £7.6 million.

Better Care Fund

The Better Care Fund (BCF) for 2022/23 totals £130.5 million which is reporting an underspend of £8.3 million (6.4%). The underspending is attributable to the non-utilisation of a previous carry-forward, some planned under-spending within grant funding and increased (once-off) contributions from the NHS Devon ICB.

£6.65 million of the total will be carried forward by the Council to 2023-24 to continue with spending plans within the terms of the BCF framework agreement. The BCF governing body, the Better Care Fund Leadership Group, have agreed that the use of all surplus funds carried forward in to the 2023-24 financial year will be decided by them, within the guidelines of the Section 75 BCF framework agreement.

For more information on the Better Care Fund please see the table in Note 34.5.

General Balances

The working balance at 31st March 2022 was £14.8 million and this increased by £1 million as a result of a transfer from the Budget Management Reserve, approved by County Council when it set the budget in February 2022. There is also an increase of £156,000 because of the underspend during 2022/23 taking the closing balance to just under £16 million.

The following table summarises the outturn summary presented to Cabinet in June 2023.

**Statement of Summarised Costs
2022/23**

	Final Adjusted Budget £000	Unadjusted Spending £000	Carry forwards to 2023/24 £000	Transfer to DSG Adj A/c £000	Transfers to/(from) reserves £000	Outturn (Under) / Over £000
Integrated Adult Social Care	336,347	338,662				2,315
Children and Young People's Futures - General Fund	180,141	197,770	1,946			19,575
Children and Young People's Futures - DSG	29,795	41,248	20,780	(32,233)		0
Public Health, Communities and Prosperity	24,163	9,464	11,400		1,376	(1,923)
Corporate Services	43,468	41,164				(2,304)
Climate Change, Environment and Transport	87,330	73,831	7,978			(5,521)
COVID-19	22,061	12,534	1,854			(7,673)
Non Service Grants excluding COVID-19	(108,137)	(109,076)	350			(589)
Other Non service income and expenditure	85,578	45,760	34,282		1,500	(4,036)
Use of reserves	(22,938)	7,374			(30,312)	0
Budget Carry forwards from 2021/22	(117,743)		(112,628)	(5,115)		0
Total Net Revenue Budget / Spending	560,065	658,731	(34,038)	(37,348)	(27,436)	(156)
Revenue Support Grant	(582)	(582)				
Business Rates - Top Up Grant	(80,654)	(80,654)				
Business Rates - local element	(19,145)	(19,145)				
Collection Fund Deficit Business Rates	7,464	7,464				
Collection Fund Surplus Council Tax	(4,954)	(4,954)				
Council Tax Requirement	(462,194)	(462,194)				
Use of reserves and carry forwards	0	98,666	(34,038)	(37,348)	(27,436)	(156)

Earmarked Reserves

At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at just under £136 million. During the year earmarked reserves have decreased by £28.4 million to just under £107.6 million. The reason for this movement is explained in the following table:

	£000	£000
Budget Book (February 2022)		
Contribution from reserves to support the budget	(22,938)	
Transfer from Budget Management to General Fund	(1,000)	
Use of Reserves	<u>(6,949)</u>	
Budgeted reduction in earmarked reserves		(30,887)
Additional use of reserves during the year		(425)
Outturn Contribution to Budget Management Reserve		1,500
Underspend on Public Health Ring-fenced Grant		1,376
Net reduction in earmarked reserves		<u>(28,436)</u>

Government regulations require that any negative DSG balance be held as a DSG Adjustment Account and not netted off from our Reserves. Initially these regulations were to be applied to the three financial years to 31 March 2023 but this statutory requirement has been extended for a further three years to 31 March 2026. What will happen to the balance after that time is unclear. The following table sets out the balances on this ring-fenced account.

Dedicated Schools Grant Adjustment Account

	1 April 2022 Movement		31 March 2023
	£000	£000	£000
High Needs Block - SEND	(86,529)	(38,908)	(125,437)
De-delegated, Central and Early Years Block and Growth Fund	5,115	1,560	6,675
Total (Deficit)	<u>(81,414)</u>	<u>(37,348)</u>	<u>(118,762)</u>

Details of Earmarked Reserves are contained in Note 9.

Capital Spending

The approved Capital Programme for 2022/23 totalled £230.9 million. This figure includes £42.2 million brought forward from 2021/22 and £23.5 million of other additions approved during 2022/23.

During March 2023, the following income was secured for the financial year 2022/23. This income has been added to the capital programme in order to fund capital expenditure, or to carry forward to 2023/24; subject to the terms and conditions of that funding:

- New Stations Fund 3 - Marsh Barton Station £360,000
- S106 and other Contributions – Uffculme Primary Academy additional classrooms £211,424

- External Funding Contribution – Cullompton High Street, Heritage Action Zone
£174,023

Spend for the year totals £147.2 million resulting in an outturn variance of £83.7 million (actual spend in 2021/22 was £144.2 million with a variance of £74.2 million).

The following table summarises the 2022/23 Capital Programme expenditure and its financing:

Capital Expenditure	Budget	Actual Spend	Variation
	£000	£000	£000
Children & Young People's Futures	8,938	3,591	5,347
Climate Change, Environment & Transport	184,612	125,619	58,993
Finance & Public Value	369	286	83
Integrated Adult Social Care	10,815	8,426	2,389
Legal & Democratic Services	51	0	51
Public Health, Communities & Prosperity	15,057	3,966	11,091
Transformation, Performance & Resources	11,073	5,278	5,795
Total	230,915	147,166	83,749

Capital Financing	Budget	Actual Spend	Variation
	£'000	£'000	£'000
Capital Receipts Applied	18,440	9,734	8,706
Internal Borrowing	20,099	6,197	13,902
External Grants and Contributions	190,501	130,205	60,296
Revenue Budgets	1,875	1,030	845
Total	230,915	147,166	83,749

Variation between the delivered Capital Programme and Budget

The 2022/23 slippage totalled £83.7 million.

A net of £54.7 million is carried forward into the 2023/24 Capital Programme. This net figure includes £57.1 million in carry forward, less £2.4 million which was added to the 2022/23 budget, as schemes experienced an accelerated delivery.

£13.1 million will be carried forward into 2024/25 and future years.

The remaining £15.9 million has been released from the capital programme in 2022/23 as a net underspend. £7.2 million of this balance is in relation to the Sustainable Warmth Phase 1 project, which has been partially replaced by the Department for Energy Security & Net Zero (DESNZ) with Home Upgrade Grant (HUG2) grant funding of £13.3 million.

The delivery of the 2023/24 Capital Programme has been affected increasingly over time, across all services, by the difficulty in sourcing materials, labour, delays in tender and procurement, but also as a delayed response to the pandemic as the UK economy struggles to recover. A summary of the main projects contributing to this year's outturn variance, is explained in more detail for each directorate.

Children and Young People's Futures

£3.5 million has been spent in 2022/23 mainly funded by the Devolved Formula Capital (DFC) grant. DFC provides schools capital funding to allow Schools to prioritise the needs of its buildings, grounds and provides investment in capital equipment including ICT.

The £4.5 million of slippage in this directorate is partly due to a lower call on the DFC grant due to works being paused or reprioritised throughout the academic year. In addition, new funding of £2.1 million was awarded to schools in December 2022 from the Department of Education with the aim of improving the energy efficiency of school buildings and reducing energy costs. The late allocation of this funding meant that works are only now beginning to start. However, this important work will continue into 2023/24.

Climate Change, Environment and Transport - Investment 2022/23

£125.6 million has been invested during 2022/23 under this directorate, of which £118 million is funded by external grants and contributions.

£4 million has been spent on the capital maintenance of around 90 Schools and £8 million in School expansions aimed at providing sufficient capacity, as well as £13 million spent specifically on providing SEND places.

£55 million has been spent on the capital maintenance of Devon's road network, which is the longest in England at over 8,000 miles. A further £1.6 million has been invested in the conversion of street lamps to LED which is expected to deliver revenue and energy savings.

£35 million has been invested in Devon's transport and highways infrastructure which includes the North Devon Link Road and South West Exeter Highways Infrastructure Fund (SWEHIF) projects. This investment includes projects aimed at improving our cycle network, footpaths and road safety measures.

£4.5 million spent on the Long Lane scheme, nr Exeter Airport will unlock a 19-acre Power Park site, creating 1,000 jobs as part of the Exeter and East Devon Enterprise Zone. The scheme also delivers improved cycle links and a new bus route with 20min service to Exeter College's Future Skills Centre, Hampton by Hilton hotel and Exeter Airport Business Park.

£4.5m has been invested at the Houghton Barton Link Road, Newton Abbot. This is the first phase of linking the A382 to A383 corridors, which will facilitate 1,000 homes on the west side of the town.

Almost £8 million has been invested in other projects aimed at improving or enhancing our environment whilst contributing to our net zero carbon commitments. £1.4 million has been invested in flood defences and £6.6 million in carbon reduction initiatives. These initiatives include £5.6 million investment in retrofitting our own buildings to deliver carbon and or energy cost savings.

Climate Change, Environment and Transport - Carried forward to 2023/24

The majority of slippage in the capital programme, just over £50 million, falls within this Directorate. £15.3 million is due to late funding announcements which have been carried

forward to 2023/24. The remaining slippage of £35.2 million is not unusual considering the size of the capital programme in this area, and the scale and complexity of major projects.

The North Devon Link Road project reports a £12 million variance. The pandemic caused issues relating to labour and staffing resources, deliverability and availability of materials, which has affected the general progress of works. The war in Ukraine has affected the availability of steel across Europe, making procurement even more challenging. A section of the main works and the remaining minor junctions have therefore been descope. The main contract has been varied to reflect this change and anticipated completion is now March 2024, rather than December 2023. The two remaining minor junctions have been rescheduled to the end of the project to enable the main works to complete on time.

The South West Exeter Housing Infrastructure Fund reports a variance of £4.0 million. The 2022/23 original profiled budget comprised of fourteen different elements. Two elements are now expected to be delivered directly by the developer, rather than DCC and the electricity substation was delayed due to agreeing an acceptable location with Western Power and then obtaining planning permission. Works were completed on the A379 at the eastern junction and school access junction.

Projects aimed at maintaining or expanding our schools were equally affected by delays in tenders and availability of materials and labour. £1.8 million in Schools Capital Maintenance Contingency was not called upon in 2022/23 and around £1.6 million in schools maintenance works have been rescheduled to complete in 2023/24. £2.3 million will be invested in the South West Devon Special school which is expected to complete in 2023/24 along with slippage in other school expansions totalling around £4.3 million.

Around £9 million in slippage is made up of slippage in other smaller schemes, and £1.1 million in slippage relates to the purchase of fleet and winter maintenance vehicles where delays in supply across the UK have meant that delivery is not now expected until 2023/24.

£15.3 million is carried forward which is due to late funding announcements or where grant funded projects are being extended into 2023/24. This includes £1.3 million for the Active Travel Fund Tranche 3, £1.0 million in Sustainable Warmth grant and £13.0 million in the newly awarded Home Upgrade Grant (HUG) phase 2 projects. The HUG funding will enable the energy efficient retrofit of low income homes, to continue over the next 2 years.

Integrated Adult Social Care

The capital programme for this directorate is mainly attributable to the Disabled Facilities Grant (DFG) of £8.2 million. This grant is paid to Devon County Council for onward allocation to the County's Districts and Unitary Authorities to award to individuals who require changes to the accessibility of their homes.

Public Health, Communities and Prosperity

£3.9 million has been invested in projects across the Public Health, Communities and Prosperity directorate in 2022/23. This includes £2 million completing the North Devon Enterprise Centre (NODE) Phase 2 project. The building provides 564 square metres of flexible office space and an extra 48 car parking spaces to serve North Devon.

The redevelopment and modernisation of Bideford Art Centre has progressed well, with spend of £1.3 million in 2022/23.

Delays or complications in procurement have slowed projects during 2022/23 with around £1.6 million being carried forward for libraries and for our business park projects, as well as £2.3 million for the Devon & Somerset, Superfast Broadband programme which is expected to complete over the next two years.

The Strategic Land transactions of £5.9 million are still in negotiation but is expected to complete in full in 2023/24.

Transformation, Performance and Resources

£5.3 million has been invested in 2022/23 in our corporate estate, which includes £1.0 million enhancing our County Farms Estate and £1.9 million in the DCC ICT Replacement and Renewal programme and Scomis ICT updates. £2.4 million has been invested in the capital maintenance of our existing corporate estate as well as strategic land purchases and other property upgrades.

The main elements of the Authority's ICT Replacement and Renewal Programme were paused during the 2023/24 budget setting process to ensure best value and more detailed options appraisal were undertaken. Funding of £3.9 million has therefore been carried forward to 2023/24, when work is expected to recommence. £650,000 in other smaller project budgets has been carried forward to 2023/24 to enable the payment of retentions or take smaller schemes to completion.

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 £262 million (Note 24 page 95) 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 £19 million (Note 17 page 74) leaving a deficit (Pensions Reserve) of just under £243 million (Note 23 page 91). 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 2023. The liability at 31st March 2022 has reduced by just over £645 million since 31st March 2022. There are two key movements:

- A reduction in the present value of the defined benefit obligation by just over £697 million - 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 assumptions about future increases in discount rate (accounting for more than £560 million), pensions (£63 million) and salaries (£5 million); and

- A reduction in the Authority's share of Pension Fund Assets by £52 million because of a decrease in returns on assets less interest.

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

Note 37 on page 124 provides further information.

Performance Management

This section includes a brief overview of the County Council, its objectives, performance and service provision in 2022/23.

About Devon

Devon:

- Has an outstanding natural environment and a strong sense of community.
- Is where many people wish to live to enjoy a great quality of life.
- Has a £18 billion economy, underpinned by a skilled workforce and a diverse business base, but also significant employment in less well-paid sectors (tourism etc) where wages can often be low. There are large and continuing economic differences between Devon's Districts.
- Has high house prices compared to earnings in most of the County. Average house prices increased to £305,000 by September 2022 and continue to increase, but vary a lot by location. Average house prices are now well over 10 times the average salary. Salcombe has the highest average house prices in the UK outside of London. A lack of affordable properties, to both rent and buy, can make it difficult for key workers in many sectors, especially care, health and education to find anywhere to live.
- Has areas of significant deprivation and household poverty.
- Children under 16 comprise 15.8% of the total population of Devon compared to 18.4% for the national average.
- Experiences low crime overall compared with most areas of the country, although there are some increasing risks from drugs, child sexual exploitation, domestic abuse, race hate crime / extremism and modern slavery.

About Devon County Council

Devon County Council is one of 26 County Councils in England. We represent a population of around 814,400 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 2021 with the Conservative group, led by Councillor John Hart, remaining in control of the Council with 39 of the 60 seats.

County Council election 2021

Conservative	39
Liberal Democrat	9
Labour	7
Green	2
Independent	3
Total	<u>60</u>

Our Strategy

The Strategic Plan 2021 – 2025 vision is for Devon to be the Best Place to:

- **Grow up** - We are committed to being a child friendly Devon where all children and young people are safe, healthy, ambitious, and can fulfil their potential.
- **Live Well**- We are committed to being a fairer Devon: inclusive, compassionate and caring, where everyone is safe, connected and resilient.
- **Prosper** - We are committed to being a greener and prosperous Devon, with opportunities to create a sustainable future for all.

The Plan's six priorities are to:

- Respond to the climate emergency - lead on helping Devon respond to the climate and ecological emergency, and work to protect and improve our natural environment.
- Be ambitious for children and young people - work together to ensure all children are safe, healthy and can thrive with opportunities to fulfil their potential.
- Support sustainable economic recovery - help Devon achieve inclusive economic recovery and sustainable growth, ensure more people can take advantage of opportunities, and invest carefully to improve infrastructure
- Tackle poverty and inequality - make Devon a fairer place, address poverty, health and other inequalities, and ensure support for those people and families struggling most.
- Improve health and wellbeing - help people to be healthier and more resilient, ensure everyone gets the care they need, and support people to live their lives well.
- Help communities be safe, connected and resilient - support all our communities to be safer, better connected and more resilient with a focus on communities at greatest risk or in greatest need.

We are committed to being a council that is trusted, inclusive and innovative. Over the next four years we will:

- Transform, develop, and improve our children's services.
- Respond to demographic pressures and future workforce challenges.
- Embrace the positive benefits of a diverse workforce and create an environment that is inclusive and safe for all staff.
- Make best use of data and intelligence to help inform what we do and understand its impact on the people of Devon.
- Transform the way we work to make us more resilient and adaptable and helps reduce our carbon footprint.
- Invest in digital solutions to help us work more effectively and make us more responsive.
- Enable greater financial resilience and improve financial planning.
- Increase discipline and rigour around decision making.

Our services

In January 2022 we revised our leadership arrangements, introducing a new, smaller Strategic Leadership Team. Our seven main service groups are now:

- **Integrated Adult Social Care**; including adult care commissioning and operations for older people and working age adults with physical or learning disabilities.
- **Children and Young People's Futures**; including children's health and wellbeing, education and learning, services for vulnerable children and families, safeguarding, looked after children and care leavers.
- **Climate Change, Environment and Transport**; including highways infrastructure, development and waste, planning, transportation and environment.
- **Public Health, Communities and Prosperity**; including communities, economy enterprise and skills, Public Health, communications and media.
- **Finance and Public Value**; including financial management and transformation, Devon Audit Partnership, procurement, strategy and compliance.
- **Legal and Democratic Services**; including the coroner service, democratic support, legal services, Registration Service and Lord Lieutenancy Service.
- **Transformation, Performance and Resources**; including business services, , human resources, digital transformation, organisational change, and equality, diversity and inclusion.

Risks and challenges

The main risks facing the County Council in 2022/23 included:

- The ongoing impact of the COVID-19 pandemic on our services and resources, although reducing.
- Cost of living increases and challenging position of the UK economy and the public sector.
- Meeting demand for childrens' social work needs.
- Meeting our market sufficiency duties for personal and residential/nursing care for adults.
- Meeting the requirements of the government's adult social care reform agenda to timeline and budget, with costs projected to exceed funding.
- Meeting demand for social care from adults with eligible needs.
- Persisting workforce sufficiency challenges.
- The impacts of climate change on Devon's people, environment and economy.
- Supporting the ongoing health and resilience of our communities and economy.
- Responding to highways safety issues and to extreme weather events, including flooding, obstruction and structural damage to transport infrastructure.
- Growing evidence of inequality in a range of communities across Devon.

Performance and Achievements 2022/23

A selection of other performance indicators is presented below:

Example Performance Indicators 2021/22

Comparator	DCC	DCC	South West	England
Financial Year	2021/22	2020/21	2021/22	2021/22
Take up of funding for two-year olds	90.0%	82.0%	80.0%	72.0%
Key Stage 2 combined Reading, Writing and Maths	56.0%	n/a	57.0%	59.0%
Key Stage 2 combined Reading, Writing and Maths - disadvantaged pupils	35.0%	n/a	37.0%	43.0%
Key Stage 2 combined Reading, Writing and Maths - SEN pupils with EHC plan	8.0%	n/a	7.0%	7.0%
GCSEs grades 9 to 5 in English & Maths - all pupils	48.9%	50.9%	49.4%	46.8%
Attainment 8 - all pupils	48.2	51.1	48.8	47.2
GCSEs grades 9 to 5 in English and Maths - disadvantaged pupils	26.8%	27.5%	25.9%	29.7%
Attainment 8 – disadvantaged pupils	36.1	39.1	35.8	37.7
GCSEs grades 9 to 5 in English & Maths – SEN pupils with EHC plan	8.8%	6.5%	7.3%	7.0%
Attainment 8 – SEN pupils with EHC Plan	17.4	17.2	15.1	14.3
GCSEs grades 9 to 5 in English & Maths – Children in Care in Devon for 12 months	26.7%	32.8%	20.1%	22.1%
Attainment 8 - Children in Care in Devon for 12 months	20.2	21.1	18.9	20.3

Integrated Adult Social Care

From 1st April 2023 local authority adult social care functions are subject to assurance by the Care Quality Commission and are required to maintain a self-assessment for that purpose. The following summary draws on data published nationally in the Autumn of 2022.

What we can be proud of:

In 2021/22 Devon had 19/26 indicators from the Adult Social Care Outcomes Framework ranked in the top two quartiles, up from 13/26 in 2020/21, and improved on most measures when the national trend was downwards.

- Our overall satisfaction ratings for services users and their quality-of-life indicator based on survey questions about their lived experience were among the best in the country, ranking 15/150 and 5/150 respectively.

- Our provider quality ratings in Devon judged by the Care Quality Commission exceed the national, regional and comparator authority averages with 79% of community-based services and 89% of care homes in Devon are rated Good or Outstanding.
- Our vaccination rates, with 96% of care home residents and 94% of care home staff in Devon receiving two or more doses of a vaccine against Covid-19; the fatality rate in care homes in Devon relative to population from Covid-19 was 27/150, among the lowest in the country.
- Our perception of safety indicators, where we exceed all comparator averages, with marked improvement in whether people feel their services keep them safe, ranking 60/150 and 45/150 respectively, a consistent improvement over the last 5 years when we highlighted this as an area of concern.
- Our staff and providers have been nominated for and won many national and regional awards this year, including gold and silver awards in the National Social Worker of the Year, building on our strong showing in recent years.

What we are concerned about:

- Financial sustainability, with the cost-of-living crisis impacting on people who use our services and their carers, people who might become vulnerable, the viability of our providers, and county council budgets.
- Market insufficiency, especially regarding regulated personal care where we are unable to source up to 5,000 hours each week with contingencies in place to keep people safe, but in some places at some times also residential and nursing care.
- Hospital discharge and system flow, with delays sometimes due to lack of capacity in community-based health and care services, which can mean people don't get the right care at the right place at the right time to optimise their recovery.
- Care management waiting lists for assessments and reviews, with our own capacity constrained, demand increasing, and people's circumstances changing more frequently.
- Replacement care and short breaks for unpaid carers, with their social isolation and its impact on their wellbeing highlighted in recent surveys as being of particular concern, especially in rural areas.
- Demand pressures from those aged 18-64, with activity levels higher in Devon than elsewhere, and market costs rising more rapidly than is typical, especially for services to older people, both residential and community based.

The challenges ahead:

- Delivering on our 'Promoting Independence' vision and 'Living Well', 'Ageing Well', and 'Caring Well' strategies including maintaining people at home and not in hospital or a care home wherever possible.
- Living up to the vision that people should be supported to live their best possible life in the place they call home, with the people and things they love, in communities where people look out for each other, doing what matters to them and be independent, informed, secure, and connected.
- Managing within a budget that while increasing is under pressure from rising demand, increasing costs, insufficient supply, cost of living pressures, and falling council income.

- Implementing the government's agenda for health and social care reform including regarding integration, assurance, and the currently postponed changes to charging arrangements.
- Maintaining flow through the health and care system, especially during winter when we are facing outbreaks of infectious diseases, and pent-up demand for NHS services.
- Recruiting, retaining, and developing sufficient staff to deliver on our statutory duties and maintain sufficient, diverse, and high-quality services including working with providers to develop their capacity and innovate new services.

Children and Young People's Futures

Children in Devon faced unprecedented challenges during 2021/22. Children's services had to meet a significant increase in referrals about children who may be in need, or at risk of harm. The services experienced acute staff shortages and high caseloads in the initial response teams. At the end of March 2022, 33% of the overall social worker workforce were agency staff. Establishing a stable, permanent workforce is key in supporting the services' improvement journey.

The greatest cost pressures relate to the availability of suitable provision for children coming into care, the reliance on agency staff pending impact of the recruitment and retention strategy and the SEND High Needs Block.

There continues to be increased demand on high needs. In particular, the growing demand on Education Health Care Plans and Special Educational Needs placements within the independent sector. This is being reflected nationally in relation to High Needs funding demands. The plan to reduce the demand on the High Needs Block over future years should improve parent's and young people's lived experience of Special Educational Needs support. The plan aims to implement an integrated service, together with families, to ensure young people receive the right support at the right time.

A snapshot of activity and performance as at the end of October 2021 included:

- We have seen a significant increase of 4.1% in the volume of referrals to Children's social care post pandemic, but a reduction since the start of this term. This includes an increase in concerns relating to parental mental health, domestic violence and substance misuse. In response, additional staffing has been agreed for the Multi Agency Safeguarding Hub (MASH).
- The increased volume of activity, workforce turnover and higher caseloads have impacted on assessment timeliness. Assessment timeliness and quality is a current priority for improvement, including ensuring children are seen and assessments are thorough and contain good analysis of the need for help or support.
- There has been a steady increase of 4.9% in the number of children in need, adding to higher social worker caseloads.
- We have seen a significant increase of 24.1% in child protection activity this year leading to a continued increase in the numbers of children on a Child Protection Plan (CPP). 85% of children subject to an Initial Child Protection Conference are made the subject of a child protection plan indicating that the threshold for holding the meeting is right and families are not being subjected to this unnecessarily. 50% of children are subject to a CPP for concerns about neglect, 35% for emotional abuse, 12% for physical abuse and 3% for sexual abuse.

- Our 'Bridges' edge of care service has helped to address rising numbers of children in care by supporting families and preventing adolescents from coming into care. We are working to ensure children return home when changes have been made in their family, 34 children in long term care currently have a plan for reunification.

Education

In 2022/2023 we were delighted to welcome all Babcock education staff into Devon County Council following a successful transfer of employment. This transfer enables all education services to be provided through DCC allowing staff to use resources creatively across departments.

The newly formed education and learning team are working to achieve our vision of ensuring that we have “every child thriving in an education setting every day.” This remains challenging, as post Pandemic, Devon Schools are facing similar challenges to those presented nationally.

Attendance rates have not yet returned to pre pandemic levels, but we are broadly in line with national averages. Primary attendance is slightly above the national average, however, secondary attendance is below the national average with persistent absentee rates (more than 10% absence) remaining high. We have seen an increasing number of children and young people with social, emotional and mental health issues who are finding it difficult to access education.

Our education teams have been working closely with settings to explore alternative options for the child or young person within the setting but the demand for support remains very high. Devon has higher than national rates for suspensions and exclusions and we have seen the number of young people needing alternative provision continue to increase beyond the resource available.

Devon has continued to provide a strong Early Years and Childcare service with our percentage of 2 years taking up a funded place, once again above the national average.

Our admissions team worked very effectively to ensure that over 99% of families received one of their preferred primary schools and 91% one of their preferred secondary schools. They communicated on both offer days with many thousands of families across Devon so that children and young people know where they will be attending school in September 2023.

The safeguarding team have continued to work across Devon and beyond in providing training, audits and support services to schools. We have worked closely with Ofsted to investigate complaints they have passed to us and we have had positive feedback on the rigour of our investigations. Schools and settings work closely with us in safeguarding children and young people and we have repeatedly seen strong and effective systems in place across the authority.

Our education traded services have remained popular with schools and settings and we continue to see high levels of attendance events such as the SEND conference. Our music, library and outdoor education services are all fully operational post pandemic, well accessed by schools and providing children and young people across Devon with opportunities to access an extended curriculum.

Community and economy

Post pandemic, several factors have combined to increase the cost of living for Devon's households. These cost of living increases disproportionately affect those on middle and lower incomes.

Analysis by the County's Economy Team shows that by the end of 2024, average earnings in Devon are likely to be £740 a year lower than if the Pandemic had not occurred. Housing costs have risen among the fastest on record over the past two years. In April 2022, tax changes and energy price rises combined to rise by an average £1,200 per household.

DCC is leading several programmes to tackle poverty and inequality, including:

- Coordinating the distribution of Government funding to combat the symptoms of poverty e.g., the Household Support Grant. This funding equates to over £10 million in 2023/24.
- Delivery of supermarket vouchers during school holidays to all recipients (currently 21,000 children) of Free School Meals across the county.
- Funding and close working with District Council partners on the direct distribution of welfare funding and support to thousands of households.
- Via the Household Support Grant, funding Citizens Advice Devon to issue fuel vouchers alongside wider support and advice to those in need.
- Developing local support networks and to provide funding across voluntary and community organisations to reduce food and fuel poverty and support people that are experiencing hardship.
- Developing a shared understanding of food and fuel insecurity, and the impacts in Devon; DCC's emerging role; alongside the wider opportunities in partnership.
- Promoting services that increase resilience, self-reliance, and independence.

Devon County Council is committed to being a flexible, resilient, learning organisation. We are growing our capacity and capability, strengthening relationships with colleagues, partners and communities, and helping create a Devon where everyone can live their life well.

Angie Sinclair

Director of Finance and Public Value

29th June 2023

Donna Manson

Chief Executive

19th July 2023

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 Director of Finance and Public Value;
- 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 Director of Finance and Public Value

The Director of Finance and Public Value 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 Director of Finance and Public Value 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 Director of Finance and Public Value 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 Director of Finance and Public Value

I hereby certify that this Statement of Accounts for the year ended 31st March 2023 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 2023 and its income and expenditure for the year ended 31st March 2023.

Angie Sinclair

Director of Finance and Public Value

7th September 2023

Approval of the Statement of Accounts

I can confirm that these accounts were approved by the Audit Committee at its meeting on 25th September 2023.

.....

Chair of the Audit Committee

25th September 2023

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.

2021/22 Gross Expenditure	2021/22 Gross Income	2021/22 Net Expenditure		Notes	2022/23 Gross Expenditure	2022/23 Gross Income	2022/23 Net Expenditure
£000	£000	£000			£000	£000	£000
General Fund continuing operations							
406,015	(103,029)	302,986	Integrated Adult Social Care		450,522	(93,868)	356,654
611,155	(347,833)	263,322	Children and Young People's Futures		673,919	(373,744)	300,175
76,108	(46,522)	29,586	Public Health, Communities & Prosperity		101,189	(74,897)	26,292
70,171	(25,359)	44,812	Corporate		82,628	(25,275)	57,353
160,515	(30,634)	129,881	Climate Change, Environment and Transport		167,618	(36,104)	131,514
52,955	(62,994)	(10,039)	Non Service		17,473	(12,725)	4,748
1,376,919	(616,371)	760,548	Cost of Services	1,14	1,493,349	(616,613)	876,736
17,974	0	17,974	Other Operating Expenditure	6,11	47,501	0	47,501
63,807	(1,113)	62,694	Financing and Investment Income and Expenditure	12	61,070	(4,370)	56,700
0	(800,600)	(800,600)	Taxation and Non-specific Grant Income	13	0	(797,527)	(797,527)
1,458,700	(1,418,084)	40,616	(Surplus) or Deficit on Provision of Services		1,601,920	(1,418,510)	183,410
		(52,741)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	23			(51,032)
		(1,656)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	18.2			1,828
		(479,650)	Remeasurements of the net defined benefit liability	37			(714,300)
		(534,047)	Other Comprehensive Income & Expenditure				(763,504)
		(493,431)	Total Comprehensive Income & Expenditure				(580,094)

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 31st March 2021	(250,730)	(43,978)	(7,781)	(302,489)	536,014	233,525
<u>Movement in reserves during 2021/22</u>						
Total Comprehensive Income & Expenditure	40,616			40,616	(534,047)	(493,431)
Transfer in year DSG Deficit from General Fund to Adjustment Account	(37,858)			(37,858)	37,858	0
Adjustments between accounting basis & funding basis under regulations (Note 8)	(15,441)	(4,543)	4,162	(15,822)	15,822	0
Net (Increase)/Decrease in 2021/22	(12,683)	(4,543)	4,162	(13,064)	(480,367)	(493,431)
Balance at 31st March 2022 Carried Forward	(263,413)	(48,521)	(3,619)	(315,553)	55,647	(259,906)
<u>Movement in reserves during 2022/23</u>						
Total Comprehensive Income & Expenditure	183,410			183,410	(763,504)	(580,094)
Transfer in year DSG Deficit from General Fund to Adjustment Account	(37,348)			(37,348)	37,348	0
Adjustments between accounting basis & funding basis under regulations (Note 8)	(84,744)	20,040	(6,230)	(70,934)	70,934	0
Net (Increase)/Decrease in 2022/23	61,318	20,040	(6,230)	75,128	(655,222)	(580,094)
Balance at 31st March 2023 Carried Forward	(202,095)	(28,481)	(9,849)	(240,425)	(599,575)	(840,000)

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 2022		Notes	31st March 2023	
£000			£000	£000
1,641,455	Property, Plant & Equipment	16	1,667,575	
4,070	Intangible Assets		2,153	
2,505	Heritage Assets		2,505	
27,089	Long Term Investments	18	29,261	
	Investments in Associates & Joint Ventures	18	970	
970				
28,664	Long Term Debtors	17	21,702	
1,704,753	Long Term Assets			1,724,166
162,877	Short Term Investments	18	97,030	
1,720	Inventories		2,742	
141,488	Short Term Debtors	19.2	149,502	
87,236	Cash and Cash Equivalents	21	70,612	
3,065	Assets held for sale	22	688	
396,386	Current Assets			320,574
(6,451)	Provisions	20	(6,183)	
(287)	Short Term Borrowing	18	(287)	
(7,715)	Revenue Grants Receipts in Advance	32	(4,370)	
(145,537)	Short Term Creditors	19.1	(151,799)	
(159,990)	Current Liabilities			(162,639)
(14,054)	Provisions	20	(12,696)	
(510,919)	Long Term Borrowing	18	(510,828)	
(1,045,761)	Other Long Term Liabilities	24	(393,089)	
(7,603)	Revenue Grants Receipts in Advance	32	(8,376)	
(102,906)	Capital Grants Receipts in Advance	32	(117,112)	
(1,681,243)	Long Term Liabilities			(1,042,101)
259,906	Net Assets/(Liabilities)			840,000
(315,553)	Usable Reserves		(240,425)	
55,647	Unusable Reserves	23	(599,575)	
(259,906)	Total Reserves			(840,000)

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.

2021/22		Note	2022/23
£000			£000 £000
40,616	(Surplus) or Deficit on the Provision of Services		183,410
(232,142)	Adjustment to surplus or deficit on the provision of services for non cash movements	25	(219,748)
146,102	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	122,065
<u>(86,040)</u>			<u>(97,683)</u>
(45,424)	Net cash flows from operating activities		85,727
5,426	Investing activities	26	(84,447)
19,179	Financing activities	27	15,344
<u>(20,819)</u>	Net (increase)/decrease in cash and cash equivalents		<u>16,624</u>
66,417	Cash and cash equivalents opening balance		87,236
<u>87,236</u>	Cash and cash equivalents at year end		<u>70,612</u>

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. Details of the adjustments column are included within Note 10.

2022/23	Net Expenditure Chargeable to the General Fund (Outturn) £000	Adjustments between the funding and accounting basis £000	Internal Transfers £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Integrated Adult Social Care	338,662	17,499	493	356,654
Children and Young People's Futures	239,017	58,651	2,507	300,175
Public Health, Communities & Prosperity	9,464	13,859	2,969	26,292
Corporate	41,164	15,526	663	57,353
Climate Change, Environment & Transport	73,831	57,210	473	131,514
Non Service	31,336	(19,483)	(7,105)	4,748
Net cost of services	733,474	143,262	0	876,736
Other Income and Expenditure	(634,808)	(58,518)	0	(693,326)
(Surplus) or Deficit	98,666	84,744	0	183,410
Opening General Fund Balance, schools and Earmarked Reserves at 1 April	(263,413)			
Add (Surplus)/Deficit on General Fund, Schools and Earmarked Reserves	98,666			
Transfer in year DSG Deficit from General Fund to Adjustment Account	(37,348)			
Closing General Fund Balance, schools and Earmarked Reserves at 31 March	(202,095)			

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.

2021/22	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
Integrated Adult Social Care	283,316	19,656	14	302,986
Children and Young People's Futures	203,992	56,617	2,713	263,322
Public Health, Communities & Prosperity	12,962	15,725	899	29,586
Corporate	39,295	5,200	317	44,812
Climate Change, Environment & Transport	78,022	51,004	855	129,881
Non Service	17,141	(22,382)	(4,798)	(10,039)
Net cost of services	634,728	125,820	0	760,548
Other Income and Expenditure	(609,553)	(110,379)	0	(719,932)
(Surplus) or Deficit	25,175	15,441	0	40,616
Opening General Fund Balance, schools and Earmarked Reserves at 1 April	(250,730)			
Add (Surplus)/Deficit on General Fund, Schools and Earmarked Reserves	25,175			
Transfer in year DSG Deficit from General Fund to Adjustment Account	(37,858)			
Closing General Fund Balance, schools and Earmarked Reserves at 31 March	(263,413)			

2. Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2022/23 financial year and its position at the year-end of 31st March 2023. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015. These regulations require the Statement of Accounts 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 2022/23, 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.

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.

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 (PPE)

Infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Other Property, plant and equipment 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, enhancement of PPE or replacement of components of the network 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 assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.
- 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.
- 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 Authority'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 Authority 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	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 Authority 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 Authority'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 Authority 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, including parts of the infrastructure assets that are subject to deterioration or depletion and 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
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 & Equipment	3 to 15 Years
Waste Disposal sites	50 Years

Infrastructure lives

Asset Type	Estimated Useful Life
Carriageways	40 Years
Road Resurfacing	5 to 15 Years
Footways and Cycle Tracks	40 Years
Major Structural Renewal	10 to 60 Years
Structures (bridges, tunnels and underpasses)	120 Years
Street Lighting	20 to 30 Years
Street Furniture	40 Years
Traffic Management Systems	10 to 15 Years
Road Safety	40 Years
Flood Alleviation & Land Drainage	30 Years
Major Inspections and Structural Reviews	6 to 12 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 note.

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 exclude any amounts relating to VAT except to the extent that it is irrecoverable.

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 2022/23 that are anticipated to have a material impact on the Council's financial performance or financial position.

CIPFA has deferred the implementation of IFRS 16 (Leases) until 1 April 2024 (and therefore in the 2024/25 Code). However, the 2022/23 Code allows for early adoption should an authority consider that it is able to do so.

Before the extension of the deferral was even suggested by CIPFA, the Council had already included in the prudential indicators in its 2022/23 budget (February 2022), an upper estimate of £25 million for liabilities related to any leases or similar arrangements.

CIPFA had deferred the implementation of this leasing standard because of national concern in the late completion of local authority audits and whether the implementation of IFRS 16 would introduce further delays in audit reporting.

Consequently, the Authority will not consider early adoption of IFRS16 until

- audit opinions have been issued on its previous years' accounts; and
- CIPFA has issued clear guidance how the standard should be applied to the particular circumstances facing local authorities.

IFRS 16 removes 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) for lessees. 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 to have a significant impact on the Authority's balance sheet but this is not yet calculated and the implementation is subject to any future adaptations by the Code before 2024/25.

3. Prior Period Reclassification of Net Service Expenditure

The Code requires that authorities present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the Authority's internal management reporting structure and in 2022/23 the Authority changed its management and reporting structure.

This note shows how the service net expenditure in 2021/22 reported under the previous internal reporting structure has been reclassified.

2021/22 Net Expenditure		2021/22 Net Expenditure reclassified into Authority's reporting segments					Non Service
		Integrated Adult Social Care	Children and Young People's	Public Health, Communities & Prosperity	Corporate	Climate Change, Environment & Transport	
£000		£000	£000	£000	£000	£000	£000
	General Fund continuing operations						
302,986	Adult Care & Health	302,986					
263,322	Children's Services		263,322				
96,962	Communities, Public Health, Environment & Prosperity			28,484		68,478	
45,914	Corporate			1,102	44,812		
61,402	Highways, Infrastructure Development & Waste					61,402	
(10,038)	Non Service						(10,038)
760,548	Cost of Services	302,986	263,322	29,586	44,812	129,880	(10,038)

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 and Devon NHS clinical commissioners, funded and controlled jointly by the 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 £30.4 million (£28.3 million 2021/22).
- 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 116 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 2023 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
Pensions Liability	<p>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.</p>	<p>The present value of the total defined benefit obligation is £1,835 million and 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 £27.5 million and a reduction in life expectancy assumptions of 1 year reduces the pension liability by £73.3 million. Adjustments to salary and pension increases of 0.1% increase the pension liability of £1.9 million and £26 million respectively.</p>
	<p>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.</p>	<p>The impact is not expected to be material.</p>

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	<p>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.</p> <p>The Council operates a rolling programme of valuation reviews which ensures all land and building 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.</p> <p>Of the £743 million land and building assets subject to valuation, £657 million (88%) relates to specialised assets valued on a DRC basis, £86 million (12%) of non-specialised operational assets.</p> <p>The Council also has assets qualifying as Assets Held For Sale held at the lower of its carrying value and fair value less costs to sell in accordance with IFRS 5. Assets Held For Sale have a carrying value of £688,000 and all have 2022/23 valuations.</p>	<p>In 2022/23 the total PPE depreciation charge was £88.3 million, comprising Buildings £33 million, PVFE £3.1 million and Infrastructure £52.2 million. 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 £2.6 million, £1 million and £8.2 million respectively for every year that useful lives are increased.</p> <p>Of the £743 million of PPE assets measured using a current value basis, £627 million (84%) were subject to a revaluation at 31 December 2022 in 2022/23. PPE assets revalued before 2022/23 total £116 million or 16% of the PPE asset base measured at current value.</p> <p>A 1% change in the valuation of those assets revalued in 2022/23 would result in a change in carrying amount of £6 million.</p> <p>A 1% change in the valuation of those assets not revalued in 2022/23 would result in a change in carrying amount of £1 million.</p> <p>PPE valued at DRC account for such a high percentage of balance sheet valuations and are therefore influenced more by rebuild costs than market values.</p>

6. Material items of Income and Expenditure

During 2022/23 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 £46.282 million (£18.238 million in 2021/22) recognised within 'Other Operating Expenditure'.

In 2022/23 the Authority received just over £10.9 million of COVID grants (£56.3 million in 2021/22) and spent £25.302 million (£59.405 million in 2021/22). During 2022/23 all COVID grants and associated expenditure have been recorded in non-service section of budget management reports.

Where the grant is not-ringfenced and there are no conditions attached then the grant is included in taxation and non-specific grant income of the CIES (Note 13) and any unspent balance is carried forward in reserves to fund expenditure in 2023/24.

Where a grant has conditions attached (i.e. ring-fenced) then the income and expenditure are recorded in non-service element of net cost of services. Any unspent balance at 31 March 2023 is treated as grants received in advance in the balance sheet and not recognised as income in CIES.

	Non-ringfenced	Ringfenced	TOTAL
COVID grants and expenditure in 2022/23	£000	£000	£000
Balance brought forward 1 April 2022	(22,061)	0	(22,061)
COVID grants recognised in year	(157)	(10,757)	(10,914)
COVID grant funding available in year	(22,218)	(10,757)	(32,975)
less			
Expenditure	20,364	10,757	31,121
Balance 31 March 2023	(1,854)	0	(1,854)

Further details of grants received are shown in Note 32, Grant Income.

7. Events after the Reporting Period

The following events are non-adjusting events.

Academy Schools

Between 1st April 2023 and 1st September 2023, the following school became an Academy:

- Wynstream School
- Gulworthy Primary School
- Lamerton Church of England Voluntary Controlled Primary School

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 £2.6 million 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 on 31st March 2023 of land and buildings for schools becoming new academies after this reporting period is £9.69 million.

As of 28th June 2023, Newtown Primary School has had its application to convert to academy status approved. The school has a net book value on 31st March 2023 of land and buildings of £1.79 million.

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.

2022/23

	General Fund £000	Capital grants Unapplied £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £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	(88,352)			88,352
Reversal of previous revaluation Losses on Property Plant & Equipment to the CIES	(6,264)			6,264
Amortisation of intangible assets	(1,437)			1,437
Release of deferred income from Energy from Waste contract	1,844			(1,844)
Capital grants and contributions	114,607	(114,607)		0
Revenue expenditure funded from capital under statute	(23,657)			23,657
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(56,662)			56,662
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	14,154			(14,154)
Capital Expenditure charged to the General Fund Balance	1,030			(1,030)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal	10,159		(14,223)	4,064
Use of the Capital Receipts Reserve to finance new capital expenditure			7,993	(7,993)
Adjustments involving the Capital Grants Unapplied Reserve:				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure			134,647	(134,647)
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)	(113,886)			113,886
Employer's pensions contributions and direct payments to pensioners payable in the year	53,274			(53,274)
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	2,849			(2,849)
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	7,540			(7,540)
Adjustments involving the Financial Instruments Adjustment Account:				
Difference between amounts debited/credited 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 premiums on the early repayment of debt.	741			(741)
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	(684)			684
Total Adjustments	(84,744)	20,040	(6,230)	70,934

2021/22

	General Fund £000	Capital grants Unapplied £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income				
Charges for depreciation and impairment of non current assets	(82,426)			82,426
Reversal of previous revaluation Losses on Property Plant & Equipment to the CIES	2,859			(2,859)
Amortisation of intangible assets	(1,242)			1,242
Release of deferred income from Energy from Waste contract	1,844			(1,844)
Capital grants and contributions	135,348	(135,348)		0
Revenue expenditure funded from capital under statute	(20,455)			20,455
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(30,557)			30,557
Insertion of items not debited or credited to the Comprehensive				
Statutory provision for the financing of capital investment	13,871			(13,871)
Capital Expenditure charged to the General Fund Balance	991			(991)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal	13,561		(5,436)	(8,125)
Use of the Capital Receipts Reserve to finance new capital expenditure			9,598	(9,598)
Adjustments involving the Capital Grants Unapplied Reserve:				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure			130,805	(130,805)
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)	(115,314)			115,314
Employer's pensions contributions and direct payments to pensioners payable in the year	49,137			(49,137)
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	8,115			(8,115)
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	6,106			(6,106)
Adjustments involving the Financial Instruments Adjustment Account:				
Difference between amounts debited/credited 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 premiums on the early repayment of debt.	736			(736)
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	1,985			(1,985)
Total Adjustments	(15,441)	(4,543)	4,162	15,822

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 2021 £000	Transfers out 2021/22 £000	Transfers in/within 2021/22 £000	Balance at 31st March 2022 £000	Transfers out 2022/23 £000	Transfers in 2022/23 £000	Balance at 31st March 2023 £000
Affordable Housing	(182)			(182)	52		(130)
Budget Management	(69,247)	6,018		(63,229)	18,369	(1,500)	(46,360)
Business Rates Pilot	(10,008)	2,385		(7,623)	6,992		(631)
Business Rates Risk Management	(12,241)	2,276	(7,268)	(17,233)			(17,233)
Climate Change Emergency	(1,595)	86		(1,509)			(1,509)
Emergency	(19,089)			(19,089)			(19,089)
On Street Parking	(2,376)	304		(2,072)	213		(1,859)
Public Health	(7,632)		(3,983)	(11,615)		(1,376)	(12,991)
Regeneration & Recovery	(5,300)	898		(4,402)	3,569		(833)
Service Transformation	(9,784)	778		(9,006)	2,117		(6,889)
Total before Carry Forwards	(137,454)	12,745	(11,251)	(135,960)	31,312	(2,876)	(107,524)
Non Schools Budget Carry Forwards	(77,360)	64,160	(74,748)	(87,948)	87,948	(57,810)	(57,810)
School Carry Forwards DSG High Needs / SEND	(21,091)	21,091	(24,680)	(24,680)	24,680	(20,780)	(20,780)
Total Earmarked including schools	(235,905)	97,996	(110,679)	(248,588)	143,940	(81,466)	(186,114)
General Fund (not earmarked)	(14,825)			(14,825)		(1,156)	(15,981)
Total General Fund, Schools and Earmarked Reserves	(250,730)	97,996	(110,679)	(263,413)	143,940	(82,622)	(202,095)

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).

2022/23

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
Integrated Adult Social Care	8,544	8,956	(1)	17,499
Children and Young People's Futures	35,044	22,924	683	58,651
Public Health, Communities & Prosperity	11,946	1,909	4	13,859
Corporate	12,047	3,480	(1)	15,526
Climate Change, Environment & Transport	54,316	2,895	(1)	57,210
Non Service	(15,997)	(3,486)	0	(19,483)
Net Cost of Services	105,900	36,678	684	143,262
Other income and expenditure from the Expenditure and Funding Analysis	(71,322)	23,935	(11,131)	(58,518)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8	34,578	60,613	(10,447)	84,744

2021/22

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
Integrated Adult Social Care	8,606	11,208	(158)	19,656
Children and Young People's Futures	29,137	29,029	(1,549)	56,617
Public Health, Communities & Prosperity	11,536	4,243	(54)	15,725
Corporate	5,764	(420)	(144)	5,200
Climate Change, Environment & Transport	48,826	2,253	(75)	51,004
Non Service	(15,715)	(6,662)	(5)	(22,382)
Net Cost of Services	88,154	39,651	(1,985)	125,820
Other income and expenditure from the Expenditure and Funding Analysis	(121,948)	26,526	(14,957)	(110,379)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8	(33,794)	66,177	(16,942)	15,441

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.

2021/22	2021/22		2022/23	2022/23
Revenue from	Revenue from		Revenue from	Revenue from
External	Transactions		External	Transactions
Customers	with Other		Customers	with Other
£000	Services		£000	Services
£000	£000		£000	£000
(60,704)	(333)	Integrated Adult Social Care	(63,016)	(1,402)
(15,068)	(19,721)	Children and Young People's	(19,951)	(22,830)
(5,594)	(3,261)	Futures	(4,652)	(6,437)
(20,376)	(31,014)	Public Health, Communities &	(19,527)	(34,953)
(23,906)	(4,483)	Prosperity	(26,496)	(3,427)
		Corporate		
		Climate Change, Environment		
		and Transport		
(125,648)	(58,812)		(133,642)	(69,049)

11. Other Operating Expenditure

2021/22		2022/23
£000		£000
16,996	Losses on the disposal of non current assets	46,503
978	Levies	998
17,974		47,501

12. Financing and Investment Income and Expenditure

2021/22		2022/23
£000		£000
37,280	Interest payable and similar charges	37,135
26,527	Pensions interest cost and expected return on pensions	23,935
(1,113)	Interest receivable and similar income	(4,370)
62,694		56,700

13. Taxation and Non Specific Grant Income

2021/22		2022/23
£000		£000
(450,936)	Council tax income	(469,996)
(80,654)	Business Rates Retention Scheme Top-up	(80,654)
(18,164)	Business Rates Retention Scheme Local Element	(21,632)
(115,498)	Non-ringfenced government grants	(110,638)
(135,348)	Capital grants and contributions	(114,607)
(800,600)		(797,527)

14. Expenditure and Income Analysed by Nature

2021/22		2022/23
£000	Expenditure	£000
420,737	Employee expenses	451,215
875,373	Other service expenses	946,081
978	Precepts & levies	998
80,808	Depreciation, amortisation and impairment	96,053
26,083	Interest payable	26,173
26,527	Pensions Financing and Investment Income and Expenditure	23,935
11,198	PFI financing charges	10,962
16,996	(Gain) or Loss on Disposal of Non Current Assets	46,503
<u>1,458,700</u>	Total Expenditure	<u>1,601,920</u>
	Income	
(163,748)	Fees, charges & other service income	(160,949)
(1,113)	Interest and investment income	(4,370)
(450,936)	Income from council tax	(469,996)
(98,818)	Business rates retention scheme - Local and top up grant	(102,286)
(703,469)	Government grants and contributions	(680,909)
<u>(1,418,084)</u>	Total Income	<u>(1,418,510)</u>
<u>40,616</u>	(Surplus) or deficit on the provision of services	<u>183,410</u>

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.

2021/22	2021/22	2021/22		2022/23	2022/23	2022/23
Revenue from Contracts with Service Recipients	Other Revenue (outside of scope of IFRS15)	Total Revenue from External Customers		Revenue from Contracts with Service Recipients	Other Revenue (outside of scope of IFRS15)	Total Revenue from External Customers
£000	£000	£000		£000	£000	£000
(35,701)	0	(35,701)	Adult Care and Health (Residential)	(37,434)	0	(37,434)
(24,950)	(53)	(25,003)	Adult Care and Health (other)	(25,126)	(456)	(25,582)
(10,571)	0	(10,571)	Education and Learning (schools)	(13,616)	0	(13,616)
(6,981)	0	(6,981)	Transport (including NHS)	(6,441)	0	(6,441)
(6,291)	0	(6,291)	Business Support	(5,154)	0	(5,154)
(6,570)	0	(6,570)	Parking, Permit Charges & Trade Waste	(7,302)	0	(7,302)
(2,346)	0	(2,346)	Children's Social Care (Residential)	(2,587)	0	(2,587)
(17,036)	(15,149)	(32,185)	Other	(29,969)	(5,557)	(35,526)
<u>(110,446)</u>	<u>(15,202)</u>	<u>(125,648)</u>	Total	<u>(127,629)</u>	<u>(6,013)</u>	<u>(133,642)</u>

16. Property Plant and Equipment (PPE)

Total Property, Plant and Equipment

	31 March 2022 £000	31 March 2023 £000
Infrastructure Assets	828,775	864,247
Other Property Plant and Equipment Assets	812,680	803,328
Total Property, Plant and Equipment Assets	1,641,455	1,667,575

Movement on balances

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

Under commercial accounting practices, depreciated historical cost would represent the amount of capital expenditure on infrastructure assets that has yet to be financed. For the Council, this is managed instead through the consolidated arrangements for reducing the Capital Financing Requirement through Minimum Revenue Provision.

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure asset when there is replacement expenditure is nil.

Infrastructure Assets

2021/22 £000		2022/23 £000
	Net Book Value (modified historical cost)	
788,702	Balance as at 1 April	828,775
83,539	Additions	78,995
(46,364)	Depreciation	(52,155)
2,898	Transferred from Assets Under Construction	8,632
828,775	Balance as at 31 March	864,247

Other Property, Plant and Equipment

Movements in 2022/23:	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1st April 2022	758,329	21,711	2,954	13,920	39,636	836,550
Additions	16,253	3,504		372	23,736	43,865
Revaluation increases/(decreases) recognised in the Revaluation Reserve	19,947			46		19,993
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	(7,755)			21		(7,734)
Derecognition - Disposals	(47,481)	(2,933)		(4,925)	(541)	(55,880)
Assets reclassified (to)/from Held for Sale	(513)			(770)		(1,283)
Other movements in cost or valuation	4,547			1,100	(14,279)	(8,632)
At 31st March 2023	743,327	22,282	2,954	9,764	48,552	826,879
Accumulated Depreciation and Impairment						
1st April 2022	(13,480)	(10,390)				(23,870)
Depreciation Charge	(33,048)	(3,149)				(36,197)
Depreciation written out to the Revaluation Reserve	31,039					31,039
Depreciation written out to the Surplus/Deficit on the provision of services	1,469					1,469
Derecognition - Disposals	1,313	2,695				4,008
At 31st March 2023	(12,707)	(10,844)	0	0	0	(23,551)
Net Book Value						
At 31st March 2023	730,620	11,438	2,954	9,764	48,552	803,328
At 1st April 2022	744,849	11,321	2,954	13,920	39,636	812,680

Movements in 2021/22:	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1st April 2021	742,368	25,496	2,954	12,812	21,194	804,824
Additions	7,667	3,515		227	26,750	38,159
Revaluation increases/(decreases) recognised in the Revaluation Reserve	21,255			1,145		22,400
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	1,343			141		1,484
Derecognition - Disposals	(18,570)	(7,300)			(470)	(26,340)
Assets reclassified (to)/from Held for Sale	(570)			(405)		(975)
Other movements in cost or valuation	4,836				(7,838)	(3,002)
At 31st March 2022	758,329	21,711	2,954	13,920	39,636	836,550
Accumulated Depreciation and Impairment						
1st April 2021	(13,472)	(13,818)				(27,290)
Depreciation Charge	(32,356)	(3,706)				(36,062)
Depreciation written out to the Revaluation Reserve	30,342					30,342
Depreciation written out to the Surplus/Deficit on the provision of services	1,375					1,375
Derecognition - Disposals	631	7,134				7,765
At 31st March 2022	(13,480)	(10,390)	0	0	0	(23,870)
Net Book Value						
At 31st March 2022	744,849	11,321	2,954	13,920	39,636	812,680
At 1st April 2021	728,896	11,678	2,954	12,812	21,194	777,534

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 2023 is £1,668 million.

The effective date for all valuations is 31 December 2022 for the financial year 2022/23 and the basis of valuation is explained in the Statement of Accounting Policies.

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under construction £000	Total £000
Valued at Historical Cost:	0	22,282	2,954	0	48,552	73,788
Valued at Current Value in:						
2022/23	627,330	0	0	9,764	0	637,094
2021/22	23,271	0	0	0	0	23,271
2020/21	34,757	0	0	0	0	34,757
2019/20	27,127	0	0	0	0	27,127
2018/19	30,842	0	0	0	0	30,842
Total	743,327	22,282	2,954	9,764	48,552	826,879

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 2022/23 property, plant and equipment assets with a carrying value of £51.9 million, which are analysed as follows:

Derecognition category	Carrying value £000	Proportion %
Transfers to academy and other school movements	46,282	89.2%
Other disposals	5,590	10.8%
Total	51,872	100%

Capital Commitments

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

Contract Name	Project Purpose	2023/24	2024/25	Total Commitment 2023/24 Onwards
		£000	£000	£000
A361 North Devon Link Road	North Devon Link Road improvements	30,240	0	30,240
Design & Application of Carriageway Surface Dressing	Highway resurfacing	6,500	0	6,500
Axminster Primary	Expansion	1,659	30	1,689
Heathcoat School	Main block replacement roof	1,305	24	1,329
A379 South West Exeter Pedestrian and cycle bridge	A379 South West Exeter Pedestrian and cycle bridge	986	0	986
Okehampton	New SEMH School	601	173	774
Lampard School	Expansion	698	36	734
Marsh Barton station	Construct Marsh Barton Station	614	0	614
Total		42,603	263	42,866

Total capital commitments at 31 March 2022 amounted to just under £62.7 million.

17. Long Term Debtors

31st March 2022 £000	31st March 2023 £000
2,150 Skypark LLP	2,150
12 Magistrates	10
22,364 Unfunded pensions	19,491
4,063 Deferred Capital Receipts	0
75 Devon Disability Collective	51
28,664	21,702

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 have been revalued for 2020/21 as shown in Note 18.2 (the previous valuation was in 2010/11). The cumulative balance in the balance sheet is shown in the following table.

Equity Instrument	Purchase	Fair Value	FIRR 31
	Cost	31 March	March
	£000	2023	2023
		£000	£000
CCLA Local Authorities Property Fund	10,000	9,261	739
Exeter Science Park Limited	1,965	885	1,080
Norse Property Services (NPS)	0	85	(85)
Total equity instruments held at FVOCI	11,965	10,231	1,734

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 2022		Financial Assets	31 March 2023	
Long-Term	Current		Long-Term	Current
£000	£000		£000	£000
Investments				
16,000	162,786	Amortised cost	20,000	96,929
12,059	91	Fair Value through other comprehensive income - designated equity instruments	10,231	101
28,059	162,877	Total Investments	30,231	97,030
Cash				
	65,863	Cash flow investments (cash equivalents) - Money Market Funds - Fair Value through Profit and Loss		46,485
	20,000	Cash flow investments (cash equivalents) - Fixed interest / notice - amortised cost		10,000
	1,373	Cash (overdraft at bank)		14,127
0	87,236	Total Cash	0	70,612
Debtors				
6,288	86,227	Amortised cost	2,201	85,014
22,376	55,261	Debtors that are not financial instruments	19,501	64,488
28,664	141,488	Total Debtors	21,702	149,502
34,347	336,340	Total Financial Assets	32,432	252,656

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 2023. The Authority has not applied any loss adjustment for credit risk for this lending.

31 March 2022		Financial Liabilities	31 March 2023	
Long-Term	Current		Long-Term	Current
£000	£000		£000	£000
		Borrowings - Amortised Cost		
(436,349)		Financial liabilities at amortised cost - PWLB	(436,349)	
(25,307)		Financial liabilities at amortised cost - previous LOBO* converted to fixed interest	(25,304)	
(49,263)	(287)	Financial liabilities at amortised cost - LOBOs*	(49,175)	(287)
(510,919)	(287)	Total Borrowings	(510,828)	(287)
		Other Long Term Liabilities - Amortised Cost		
(104,455)	0	PFI Liability	(99,174)	
(1,831)		Financial Guarantee Liability	(1,831)	
(106,286)	0	Total carried at amortised cost included in Other Long Term Liabilities	(101,005)	0
(939,475)		Other Long Term Liabilities that are not financial instruments	(292,084)	
(1,045,761)	0	Total Other Long Term Liabilities	(393,089)	0
		Creditors (payable within 12 months)		
	(119,281)	Financial liabilities at amortised cost		(107,097)
	(5,554)	PFI Liability		(5,281)
	(124,835)	Total included in Creditors		(112,378)
	(20,702)	Creditors that are not financial instruments		(39,421)
0	(145,537)	Total Creditors	0	(151,799)
(617,205)	(125,122)	Total Financial Liabilities	(611,833)	(112,665)

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:

2021/22			2022/23	
(Surplus) or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000		(Surplus) or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
		Interest Payable and similar charges		
37,280		Interest Expense - Financial Liabilities measured at amortised cost	37,135	
0		Impairment - Financial Assets measured at amortised cost	831	
37,280	0	Interest Payable and similar charges	37,966	0
		Interest income		
(725)		Financial assets measured at amortised cost	(2,974)	
(16)		Financial assets measured at Fair Value through Profit and Loss (Money Market)	(1,005)	
(372)		Investments in equity instruments designated at fair value through other comprehensive income (CCLA)	(391)	
(1,113)	0	Total interest income and similar revenue	(4,370)	0
(129)		Reversal of impairment losses	0	
(1,242)	0	Total interest income and similar revenue	(4,370)	0
		Net (gains)/losses on Investments in equity instruments designated at fair value through other comprehensive income		
	(1,656)	CCLA		1,828
		NPS		
		Science Park		
0	(1,656)	Total net (gains)/losses	0	1,828

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

Short term investments, debtors, 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 2022 and 2023 (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.
- 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 2022		Financial Liabilities held at amortised cost	31st March 2023	
Carrying amount	Fair value		Carrying amount	Fair value
£000	£000		£000	£000
		Level 2		
(436,349)	(612,257)	PWLB	(436,349)	(450,131)
(49,550)	(69,447)	LOBO's	(49,462)	(53,608)
(25,307)	(41,692)	Market Debt, Fixed Rate	(25,304)	(28,371)
(511,206)	(723,396)		(511,115)	(532,110)
		Level 3		
(110,009)	(186,097)	PFI and similar contracts	(104,455)	(149,927)
(621,215)	(909,493)		(615,570)	(682,037)

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 assets held at fair value into hierarchies:

31st March 2022			Financial Assets at Fair Value			31st March 2023		
Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
£000	£000	£000		£000	£000	£000		
			Investments					
	11,180	970	Fair Value through other comprehensive income - designated equity instruments		9,362	970		
0	11,180	970	Investments held at fair value	0	9,362	970		
			Cash					
65,863			Cash flow investments (cash equivalents) - FVPL	46,485				
1,373			Cash (overdraft at bank)	14,127				
67,236	0	0	Total Cash at fair value	60,612	0	0		
67,236	11,180	970	Financial Assets at Fair Value	60,612	9,362	970		

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 Treasury Management Policy Statement together with the Statement of Treasury Management Practices (TMPs) (applicable to this Statement of Accounts) 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 17th February 2022. The operational boundary and authorised limit for external debt for 2022/23 were initially set at £755.9 million and £780.9 million respectively for borrowing and other long-term liabilities. Actual external debt for 2022/23 was £622.5 million. The operational boundary and authorised limit for external debt were not breached.

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
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
Short-dated bond funds				£20 million
Multi-asset income funds				£20 million
Bank and Building Society Deposits				£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 2023	Historic experience of default	Historic experience adjusted for market conditions at 31 March 2023	Estimated exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	117,414	0.00%	0.01%	8
Deposits with local authorities	56,000	0.00%	0.00%	0
Debtors at amortised cost	88,305	0.31%	3.73%	3,291
				<u>3,299</u>

The investment with CCLA of £10 million 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 2022	31 March 2023
	£000	£000
Less than three months	62,242	54,981
Three to six months	6,525	7,546
Six months to one year	7,220	8,613
More than one year	12,700	17,165
	<u>88,687</u>	<u>88,305</u>
Provision for bad debts - Impairment	(2,460)	(3,291)
Long Term Debtors not yet due	6,288	2,211
	<u>92,515</u>	<u>87,225</u>

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 2022	Residential £000	Other £000	Secured £000	Unsecured £000
less than 3 months	7,707	54,535	1,648	60,594
more than 3 months	20,783	5,662	10,091	16,354
Total	28,490	60,197	11,739	76,948

Debt 31 March 2023	Residential £000	Other £000	Secured £000	Unsecured £000
less than 3 months	8,781	46,200	1,309	53,672
more than 3 months	25,411	7,913	9,137	24,187
Total	34,192	54,113	10,446	77,859

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 million. 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 "non specified" investments will be set at no more than 25% of the total investments outstanding at any time or £40 million whichever is the lower. Non specified investments include CCLA property fund, short dated bond funds, multi-asset income funds and bank and building society deposits over 1 year.

The maturity analysis of borrowing is as follows:

31st March 2022		31st March 2023
£000		£000
(287)	Less than one year	(287)
	Between one and two years	
(33,830)	Between two and five years	(39,610)
(5,780)	Between five and ten years	(8,903)
(65,366)	Between ten and fifteen years	(103,681)
(97,621)	Between fifteen and twenty years	(50,403)
0	Between twenty and twenty-five years	(8,903)
(57,867)	Between twenty-five and thirty years	(84,574)
(140,334)	Between thirty and thirty-five years	(113,626)
(107,053)	Between thirty-five and forty years	(98,151)
<u>(508,138)</u>		<u>(508,138)</u>

Short term creditors of £151.8 million (£145.5 million at 31 March 2022) 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 2022/23 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 5.83% 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 £565,000 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 £85,000 (£85,000 31 March 2022) and has an equity investment in Exeter Science Park Ltd to £885,000 (£885,000 at 31 March 2022). These shares are recognised in the balance sheet at £970,000 (£970,000 31 March 2022).

In 2015/16, the Authority invested £10 million 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 2022 £000	31st March 2023 £000
(15,314) Central Government	(15,355)
(5,316) Other Local Authorities	(7,059)
(1,341) NHS Bodies	(2,083)
(123,566) Other Entities & Individuals	(127,302)
<u>(145,537)</u>	<u>(151,799)</u>

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 2022 £000	31st March 2023 £000
14,884 Central Government	12,634
8,462 Other Local Authorities	10,058
12,219 NHS Bodies	9,140
7 Public Corporations & Trading Funds	8
105,916 Other Entities & Individuals	117,662
<u>141,488</u>	<u>149,502</u>

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 2022			Council Tax	31st March 2023		
Gross Arrears	Provision for bad debts	Net debtor		Gross Arrears	Provision for bad debts	Net debtor
£000	£000	£000		£000	£000	£000
11,076	(2,786)	8,290	Less than one year	11,572	(2,813)	8,759
10,544	(5,227)	5,317	Between one year and three years	10,737	(5,427)	5,310
7,528	(5,750)	1,778	More than three years	9,175	(7,032)	2,143
29,148	(13,763)	15,385		31,484	(15,272)	16,212

31st March 2022			Business Rates	31st March 2023		
Gross Arrears	Provision for bad debts	Net debtor		Gross Arrears	Provision for bad debts	Net debtor
£000	£000	£000		£000	£000	£000
389	(113)	276	Less than one year	444	(112)	332
373	(204)	169	Between one year and three years	302	(165)	137
198	(174)	24	More than three years	202	(179)	23
960	(491)	469		948	(456)	492

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 2021	Amounts released	Amounts utilised	Provided in year	31st March 2022	Amounts released	Amounts utilised	Provided in year	31st March 2023
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Insurance Fund	(2,129)	0	2,803	(2,564)	(1,890)	0	2,905	(2,570)	(1,555)
Landfill aftercare	(231)	0	372	(364)	(223)	0	254	(247)	(216)
Social Care & Community	(602)	139	3	(1,355)	(1,815)	141	86	(999)	(2,587)
Business Rates Retention Scheme									
Appeals	(2,103)	0	0	(320)	(2,423)	598	0	0	(1,825)
Green Waste	(100)	0	0	0	(100)	100	0	0	0
Total	(5,165)	139	3,178	(4,603)	(6,451)	839	3,245	(3,816)	(6,183)

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.

Social Care & Community

Claims for backdated payments for care provided in a residential home setting where provisions are 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.

Green Waste

A claim from the authority's green waste contractor was provided for on the basis of a change in regulatory requirements. Provision now closed.

Long Term Liabilities

Provisions estimated to be utilised after more than one year	31st March 2021	Amounts released	Provided in year	31st March 2022	Amounts released	Amounts utilised	Provided in year	31st March 2023
	£000	£000	£000	£000	£000	£000	£000	£000
Insurance Fund	(11,178)	1,258	0	(9,920)	1,110	0	0	(8,810)
Landfill aftercare	(4,497)	363	0	(4,134)	248	0	0	(3,886)
Total	(15,675)	1,621	0	(14,054)	1,358	0	0	(12,696)

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 2023 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 2023:

Payable within	£000
1 to 2 years	2,726
3 to 5 years	4,742
6 to 9 years	1,342
Total	<u>8,810</u>

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	210
3 to 5 years	777
6 to 10 years	847
more than 10 years	2,052
Total	<u>3,886</u>

21. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31st March 2022 £000		31st March 2023 £000
1,373	Bank Current Accounts	14,127
85,863	Investments less than 90 days	56,485
<u>87,236</u>		<u>70,612</u>

22. Assets Held for Sale

The movement on Assets Held for Sale balances during the year is as follows:

2021/22 £000		2022/23 £000
14,065	Balance at 1st April	3,065
	Assets newly classified as held for sale:	
975	Property, Plant and Equipment	1,283
	Assets declassified as held for sale:	
(11,975)	Assets sold	(3,660)
<u>3,065</u>	Balance at 31st March	<u>688</u>

23. Unusable Reserves

31st March 2022		31st March 2023
£000		£000
(275,897)	Revaluation Reserve	(289,049)
81,414	Dedicated Schools Grant (DSG) Adjustment Account	118,762
(654,017)	Capital Adjustment Account	(675,663)
14,194	Financial Instruments Adj Account	13,453
896,305	Pensions Reserve	242,618
(4,840)	Collection Fund Adjustment Account	(15,229)
7,178	Accumulated Absences Account	7,862
(94)	Financial Instruments Revaluation Reserve	1,734
(8,596)	Deferred Capital Receipts Reserve	(4,063)
<u>55,647</u>		<u>(599,575)</u>

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.

2021/22		2022/23
£000		£000
(259,879)	Balance at 1st April	(275,897)
(53,840)	Upward revaluation of assets	(55,103)
1,099	Downward Revaluation of assets not charged to the Surplus/Deficit on the provision of services	4,071
<u>(312,620)</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<u>(326,929)</u>
15,098	Difference between fair value depreciation and historical cost depreciation	16,480
<u>21,625</u>	Accumulated gains on assets sold or scrapped	<u>21,400</u>
<u>36,723</u>	Amount written off to the Capital Adjustment Account	<u>37,880</u>
<u>(275,897)</u>	Balance at 31st March	<u>(289,049)</u>

Dedicated Schools Grant (DSG) Adjustment Account

The Council is required to ring-fence any deficits arising from expenditure on the Schools Budget exceeding the Dedicated Schools Grant paid by the Government for the financial year. From 1st April 2020 deficits are posted to the DSG Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

2021/22		2022/23
£000		£000
	DSG deficit balance at 1st April	
48,998	High Needs Block - SEND	86,529
<u>(5,442)</u>	De-delegated, Central and Early Years Block, Growth Fund	<u>(5,115)</u>
43,556		81,414
37,531	High Needs Block - SEND - deficit during the year	38,908
327	Movement on De-delegated, Central and Early Years Block	(1,560)
	Balance at 31st March	
86,529	High Needs Block - SEND	125,437
<u>(5,115)</u>	De-delegated, Central and Early Years Block	<u>(6,675)</u>
81,414		118,762

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.

2021/22		2022/23
£000		£000
(592,006)	Balance 1st April	(654,017)
82,426	Charges for depreciation and impairment of non-current assets	88,352
(2,859)	Revaluation (gain)/loss on Property Plant and Equipment	6,264
1,242	Amortisation	1,437
(1,844)	Release of deferred income from Energy from Waste	(1,844)
20,455	Revenue expenditure funded from capital under statute	23,657
30,557	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	56,662
<hr/>		<hr/>
129,977		174,528
(36,723)	Adjusting amounts written out of the Revaluation Reserve	(37,880)
<hr/>		<hr/>
93,254	Net written out amount of the cost of non-current assets consumed in the year	136,648
<hr/>		<hr/>
0	Recognition of Loan to Skypark	(470)
<hr/>		<hr/>
0		(470)
	Capital financing applied in the year:	
(9,598)	Use of the Capital Receipts Reserve to finance new capital expenditure	(7,993)
(130,805)	Application of grants to capital financing from the Capital Grants Unapplied Account	(134,647)
(13,871)	Statutory provision for the financing of capital investment charged against the General Fund	(14,154)
(991)	Capital expenditure charged against the General Fund	(1,030)
<hr/>		<hr/>
(155,265)		(157,824)
<hr/>		<hr/>
(654,017)	Balance 31st March	(675,663)

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.

2021/22 £000	2022/23 £000
14,930 Balance 1st April	14,194
(648) Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(648)
(88) Adjusting for effective interest rates	(93)
(736) 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.	(741)
14,194 Balance 31st March	13,453

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.

2021/22 £000	2022/23 £000
1,309,778 Balance 1st April	896,305
(479,650) Actuarial gains or (losses) on pensions assets and liabilities	(714,300)
115,314 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	113,886
(49,137) Employer's Pensions contributions and direct payments to pensioners payable in the year	(53,273)
896,305 Balance 31st March	242,618

24. Other Long Term Liabilities

31st March 2022		31st March 2023
£000		£000
(907,654)	Pensions Liability	(262,108)
(39,642)	Private Finance Initiative Liability - schools	(35,176)
(40,959)	Liability Exeter Energy from Waste	(40,662)
(23,855)	Private Finance Initiative Liability - Plymouth Energy from Waste	(23,337)
(2,270)	Deferred income - Exeter Energy from Waste	(2,165)
(29,550)	Deferred income - Plymouth Energy from Waste	(27,811)
(1,831)	Financial Guarantee	(1,831)
(1,045,761)		(393,090)

25. Cash Flow – Operating Activities

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2021/22 £000		2022/23 £000
(82,426)	Depreciation	(88,352)
2,859	Revaluation gains/(losses)	(6,264)
(1,242)	Amortisation	(1,437)
1,844	Release of deferred income	1,844
(26,125)	(Increase)/Decrease in creditors	(4,880)
(20,493)	Increase/(Decrease) in debtors	4,889
356	Increase/(Decrease) in inventories	1,023
(76,804)	Movement in pension liability	(71,627)
335	Increase/(Decrease) in provisions	1,626
(30,557)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(56,662)
111	Other non-cash items charged to the net surplus or deficit on the provision of services	92
(232,142)		(219,748)

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2021/22 £000		2022/23 £000
13,561	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10,159
132,541	Any other items for which the cash effects are investing or financing cash flows	111,906
146,102		122,065

26. Cash Flow - Investing Activities

2021/22 £000		2022/23 £000
125,525	Purchase of property, plant and equipment, investment property and intangible assets	120,156
13,000	Purchase of long term investments	4,000
118,257	Purchase of short-term and long-term investments	98,688
(5,738)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(14,873)
(70,000)	Proceeds from short-term and long-term investments	(162,500)
(175,618)	Receipts of Capital Grants	(129,918)
5,426	Net cash flows from investing activities	(84,447)

27. Cash Flow - Financing Activities

2021/22 £000		2022/23 £000
4,638	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance-sheet PFI contracts	5,554
14,541	Other payments for financing activities	9,790
19,179	Net cash flows from financing activities	15,344

28. Cash Flow - Reconciliation of liabilities arising from financing activities

	1st April 2022	Financing cash flows	Non-cash changes Acquisitions	Other non-cash changes	31 March 2023
	£000	£000	£000	£000	£000
Long-term borrowings	(510,919)			91	(510,828)
Short-term borrowings	(287)				(287)
On balance sheet PFI liabilities - Short Term	(5,554)	5,554		(5,281)	(5,281)
On balance sheet PFI liabilities - Long Term	(104,455)			5,281	(99,174)
Total liabilities from financing activities	(621,215)	5,554	0	91	(615,570)

29. Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2022/23 £1.146 million was paid (£1.095 million in 2021/22)

30. Audit Fees

In 2022/23 the County Council has recognised the following fees relating to the external audit:

2021/22		2022/23
£000		£000
140	Fees as appointed auditor	226
5	Other services	14
145		240

External audit has not yet produced an audit plan for 2022/23. The fee as appointed auditor consists of informal estimates from the auditors of £146,000 plus £78,000 of additional audit fees relating to 2020/21 and 2021/22 that were not previously accrued in the Authority's accounts. This includes £2,000 for the letter of assurance that the Pension Fund auditor (Grant Thornton) provides to the Authority's auditor (Grant Thornton).

Fees for other services are £7,500 for the certification of Teachers' Pensions Return and £6,250 for CFO Insights.

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 £	Benefits in Kind (e.g Car £	Compensation for loss of office £	Pension contributions £	Total £
Phil Norrey, Chief Executive	1	2022/23	67,813			11,528	79,341
		2021/22	162,751			27,668	190,419
Jan Spicer, Interim Chief Executive and Head of Paid Services	1	2022/23	104,890			16,778	121,668
Donna Manson, Chief Executive and Head of Paid Services	1	2022/23	24,405			4,149	28,554
Chief Officer for Adult Care and Health	2	2022/23	63,224			5,572	68,796
		2021/22	143,885			24,460	168,345
Interim Director of Integrated Adult Social Care	2	2022/23	83,008			14,269	97,277
Director of Integrated Adult Social Care	2	2022/23	85,840			14,593	100,433
Chief Officer for Childrens Services	3	2022/23	86,775	6,102	36,453	15,079	144,409
		2021/22	143,885			24,460	168,345
Acting Director of Children and Young People's Futures	3	2022/23	46,613			7,417	54,030
Interim County Solicitor	4	2022/23	70,164			11,928	82,092
		2021/22	34,953			5,942	40,895
Director of Finance and Public Value	5	2022/23	118,145			20,085	138,230
		2021/22	48,425			8,232	56,657
Director of Public Health, Communities and Prosperity	6	2022/23	119,149			24,545	143,694
Director of Public Health		2021/22	122,925			24,240	147,165

	Note		Salary, Fees and Allowances £	Benefits in Kind (e.g Car £	Compensation for loss of office £	Pension contributions £	Total £
Director of Climate Change, Environment and Transport	7	2022/23	117,398			19,958	137,356
Chief Officer for Highways, Infrastructure Development and Waste		2021/22	107,254			18,233	125,487
Interim Head of Digital Transformation and Business Support	8	2022/23	109,179			18,560	127,739
		2021/22	17,876			3,039	20,915
Director of Legal and Democratic Services	9	2022/23	47,839			8,133	55,972
Head of Organisational Change		2022/23	66,161			11,247	77,408
		2021/22	64,236			10,920	75,156
Head of Policy	10	2022/23	53,260			9,054	62,314
		2021/22	51,385			8,727	60,112
Head of Communities	11	2022/23	16,560			2,815	19,375
	10	2021/22	71,077			12,032	83,109
Head of Service for Economy, Enterprise and Skills	11	2022/23	24,869			4,228	29,097
		2021/22	107,254			18,233	125,487
Head of Service for Planning, Transportation and Environment	12	2022/23	4,892			832	5,724
		2021/22	65,222			11,088	76,310
Head of Human Resources	14	2022/23	9,788			1,664	11,452
	13	2021/22	27,087			4,605	31,692
Head of Human Resources	14	2022/23	79,383			13,495	92,878
Head of Communications and Media		2022/23	6,047			1,028	7,075
	15	2021/22	20,549			3,493	24,042

During the 2022/23 financial year the County Council commenced a reconfiguration of Council Services and the leadership of these services, which resulted in new service and leadership titles.

1. The Chief Executive left on 31/08/2022, the Interim Chief Executive and Head of Paid Services commenced in post on 24/08/2022 and left 17/02/2023, and the Chief Executive and Head of Paid Services commenced in post on 16/02/2023.

2. The Chief Officer for Adult Care and Health left on 22/06/2022; the Interim Director of Integrated Adult Social Care commenced in post on 01/04/2022 and left 31/10/2022; the Director of Integrated Adult Social Care commenced in post on 30/08/2022.

3. The Chief Officer for Children's Services left on 09/11/2022, the Acting Director of Children and Young People's Futures commenced in post on 09/11/2022 and left 24/02/2023.

4. The Interim County Solicitor commenced in post on 01/12/2021 and reported to the Chief Executive up until 23/10/2022 and then commenced reporting to the Director of Legal and Democratic Services from 24/10/2022.

5. The Director of Finance and Public Value commenced in post on 01/11/2021.
6. As part of the Council's reorganisation of services and their leadership, the title of this post changed on 01/09/2022.
7. As part of the Council's reorganisation of services and their leadership, the title of this post changed on 01/05/2022.
8. The Interim Head of Digital Transformation and Business Support commenced in post on 01/02/2022.
9. The Director of Legal and Democratic Services commenced in this new post on 24/10/2022.
10. The remuneration of these officers includes a payment for election duties.
11. These officers reported directly to the Chief Executive up until 22/06/2022 and then commenced reporting to the Director of Public Health from 23/06/2022.
12. The Head of Service for Planning, Transportation and Environment reported directly to the Chief Executive until they left on 27/04/2022.
13. Due to changes in the leadership team in the previous year, the Head of Human Resources has been reporting directly to the Chief Executive since 06/12/2021.
14. The existing Head of Human Resources left on 12/05/2022 and the new Head of Human Resources commenced in post on 01/05/2022.
15. Due to changes in the leadership team in the previous year, the Head of Communications and Media commenced reporting directly to the Chief Executive on 06/12/2021 up until 03/05/2022 and then commenced reporting to the Director of Public Health from 04/05/2022.

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

2021/22				Emoluments £	2022/23			
Schools Staff	Other Staff	Total	Left in Year		Schools Staff	Other Staff	Total	Left in Year
82	89	171	1	50,000 - 54,999	97	147	244	
44	62	106	2	55,000 - 59,999	49	54	103	
38	18	56		60,000 - 64,999	38	27	65	
37	7	44	1	65,000 - 69,999	30	21	51	1
18	15	33	2	70,000 - 74,999	17	14	31	
10	4	14		75,000 - 79,999	14	7	21	
4	3	7		80,000 - 84,999	8	4	12	1
2	2	4		85,000 - 89,999	4	5	9	1
	3	3		90,000 - 94,999	1	6	7	3
1		1		95,000 - 99,999	3	4	7	4
1	1	2		100,000 - 104,999		2	2	
2	3	5		105,000 - 109,999	1	3	4	
	1	1		110,000 - 114,999	1	1	2	
1		1		115,000 - 119,999				
				120,000 - 124,999	1		1	
				125,000 - 129,999				
	1	1		130,000 - 134,999		3	3	1
				135,000 - 139,999				
	1	1		140,000 - 144,999				
				145,000 - 149,999		1	1	
				150,000 - 154,999				
				155,000 - 159,999				
				160,000 - 164,999				
				165,000 - 169,999				
				170,000 - 174,999				
240	210	450	6	Total number above £50,000	264	299	563	11

31.3 Exit Packages

The following table shows the number and value of exit packages included within the Comprehensive Income & Expenditure Statement.

In 2022/23 55 of the 79 exit packages related to schools and colleges and accounted for £761,000 of the total cost of £1,386,000. In 2021/22 33 of the 53 exit packages related to schools and colleges and accounted for £283,000 of the total cost of £665,000.

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	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	No.	No.	No.	No.	No.	No.	£000	£000
£0 - £20,000	17	13	24	40	41	53	281	326
£20,001 - £40,000	4	3	7	14	11	17	270	538
£40,001 - £60,000		3		2		5		242
£60,001 - £80,000				3		3		190
£80,001 - £100,000				1		1		90
£100,001 - £150,000	1				1		114	
	22	19	31	60	53	79	665	1,386

32. Grant Income

Since March 2021 the Authority has received a number of grants to support the additional expenditure and loss of income because of COVID 19.

Where the grant is not-ringfenced and there are no conditions attached then the grant is included in taxation and non-specific grant income of the Comprehensive Income and Expenditure Statement (Note 13) and any unspent balance is carried forward in reserves to fund expenditure in 2023/24

Where a grant has conditions attached (i.e. ring-fenced) then the income and expenditure are recorded in non-service element of net cost of services. Any unspent balance at 31 March 2023 is treated as grants received in advance in the balance sheet and not recognised as income in CIES.

The Authority has recognised the following COVID-19 grants in the Comprehensive Income and Expenditure Statement;

2021/22 £000	2022/23 £000
UK Government Revenue COVID 19 Grants:	
(14,823) COVID-19 Local Authority Support Grant	0
(3,825) COVID-19 Outbreak Management Grant	0
(347) COVID-19 Sales Fees Charges Compensation	0
(1,403) COVID-19 Clinically Extremely Vulnerable Support	0
(2,198) COVID-19 Community Testing Grant	(157)
(110) COVID-19 Wellbeing for Education Return	0
(894) COVID-19 ASC Omicron Support Fund Grant	0
(23,600) Non ringfenced Government Grants	(157)
(3,109) COVID-19 Infection Control Grant	0
(2,183) COVID-19 Rapid Testing Grant	0
(1,111) COVID-19 Home to School Travel	0
(2,897) COVID-19 Winter Grant Scheme	0
(679) COVID-19 Bus Services Support Grant	0
57 COVID-19 Social Care Workforce Capacity Grant	0
(99) COVID-19 Emergency Active Travel Fund	(50)
(32) COVID-19 Travel Demand Management Grant	0
(532) COVID-19 Practical Support for Self Isolation	(36)
(6,206) COVID-19 Infection Prevention	35
(3,807) COVID-19 Testing Fund	6
(217) COVID-19 LTA BRG Grant	(273)
(4,565) COVID-19 Household Support Fund Grant	(10,457)
(390) COVID-19 Vaccine (R3) Grant	18
(6,890) COVID-19 Workforce Recruitment and Retention	0
(32,660) Ringfenced Government Grants	(10,757)
<u>(56,260)</u>	<u>(10,914)</u>

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

Credited to Taxation and Non Specific Grant Income

2021/22 £000	2022/23 £000
UK Government Revenue Grants:	
(23,600) COVID-19 Grants	(157)
(28,270) Improved Better Care Fund	(29,127)
(23,309) Adult Social Care Support Grant	(32,317)
(15,376) Business Rates Reliefs and Multiplier Cap	(17,350)
(7,823) Rural Service Delivery Grant	(7,823)
(6,361) Council Tax Support Grant	0
108 Council Tax Irrecoverable Loss Compensation Grant	0
(3,596) Private Finance Initiative - Interest	(3,218)
(2,486) New Homes Bonus	(2,143)
(2,622) Independent Living Fund	(2,622)
(634) School Improvement Grant	(278)
(885) Local Service Support Grant	(1,062)
(549) Revenue Support Grant	(582)
0 BRRS Levy Account Surplus Grant	(861)
0 Adult Social Care Reform / Market Sustainability Grant	(2,413)
0 ASC Charging Reform Imp Support Grant	(97)
0 Adult Social Care Discharge Grant	(2,980)
0 Social Care Capacity Productivity	(350)
0 Cyber Security	(100)
0 Services Grant	(7,076)
(95) Other Government Grants below £50,000	(82)
<u>(115,498)</u> Non ringfenced Government Grants	<u>(110,638)</u>
Capital Grants and Contributions:	
(61,850) Department for Transport - Local Transport Plan	(44,509)
(8,146) Department for Transport - North Devon Link Road	(9,982)
(7,513) Local Authority Contributions	(9,712)
(2,456) Department for Education - Special Educational Needs (SEN)	(9,711)
(8,245) Better Care Fund - DfG grant	(8,245)
(12,373) Department for Education - Basic Need Grant	(7,941)
(5,498) Department for Education - Schools Maintenance Grant	(3,813)
(6,247) DLUHC - Housing Infrastructure Fund (HIF)	(3,641)
0 Department for Transport - Bus Service Improvement Plan	(1,141)
(1,065) Department for Education - Devolved Formula Capital Grant	(1,082)
(21,955) Other Grants & Contributions	(14,830)
<u>(135,348)</u>	<u>(114,607)</u>

Grant Income - Credited to Net Cost of Services

2021/22 £000	2022/23 £000
(32,660) COVID-19 Grants	(10,757)
(1,125) Active Devon	(1,137)
(372) Additional Drug Treatment (PHE)	(1)
(3,340) Adult and Community Learning	(2,797)
(342) Afghan Resettlement Relocation (DLUHC)	(1,306)
(636) Areas of outstanding Natural Beauty	(769)
(950) Asylum Seekers (HO)	(2,257)
(657) Building Better Opportunities Focus 5 (Lottery)	(796)
(1,146) Bus Services Operators Grant	(1,146)
(364) Community Discharge Grant (DOH)	(418)
(834) Community Renewal Fund (DLUHC)	(7,688)
(1,381) Coronavirus catch up premium	0
(1,279) COVID 19 Recovery Premium funding	(3,234)
(290,678) Dedicated Schools Grant	(302,639)
(643) Future Farming Resilience (DEFRA)	(337)
(512) Local Reform Community Voices	(512)
(216) Local Sustainable Transport Fund	(37)
(911) Music Education Grant	(1,033)
(412) Other Economy Government Grants	(381)
(2,947) PE and Sports Grant (DfE)	(2,803)
(215) Post-Adoption Support Fund (DfE)	(371)
(3,342) Private Finance Initiative	(3,719)
(291) Provision of Social Care in Prisons	(276)
(29,013) Public Health	(29,828)
(11,323) Pupil Premium	(12,005)
(694) Restorative Transformation Grant (DfE)	(1,561)
(1,422) Safe Accommodation Duty (DLUHC)	(1,426)
(515) Schools Covid income loss recompense (DfE)	(158)
(329) Secure Stairs (NHS England)	(384)
(368) Syrian Refugees (home office)	(161)
(265) Teacher Pensions Grant	(242)
(2,050) Troubled Families Programme	(1,986)
(4,315) Universal Infant Free School Meals (DfE)	(4,124)
(438) War Pensions Scheme Grant (DoH)	(446)
(563) What Works 4 Children (DfE)	(442)
(1,397) YPLA Post 16 Funding	(1,065)
0 Ukrainian Refugees (HO)	(21,009)
0 Schools Supplementary Grant (ESFA)	(4,770)
0 Supplementary Substance Misuse Grnt OHID	(481)
0 Multiply Grant (DfE)	(643)
0 Local Transport Fund Grant	(2,381)
0 Tackling Loneliness with Transport	(339)
0 Bootcamps Grant	(853)
(5,478) Government Grants below £200,000	(6,384)
(403,423) Total UK Government Grants	(435,102)
(1,212) Total EU Grants	(2,010)
(2,112) Exeter Diocesan Board PFI contribution	(2,009)
(4,285) Contributions from other local authorities	(4,806)
(20,353) Better Care Fund	(19,908)
(27,785) Integrated Care Agreement	(42)
(4,978) Other contributions to services	(5,317)
(59,513) Total Contributions from Other Sources	(32,082)
(464,148) Total Grant Income Credited to Services	(469,194)

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. The balances at the year end are:

31 March 2022 £000		31 March 2023 £000
	Revenue Grants (Included within Revenue Grants Receipts in Advance - Long Term Liabilities):	
(7,603)	S106 Developer Contributions	(8,376)
	Revenue Grants (Included within Revenue Grants Receipts in Advance - Current Liabilities)	
(7,715)		(4,370)
	Capital Grants (Included within Capital Grants Receipts in Advance - Long Term Liabilities):	
(40,828)	S106 Developer Contributions	(47,200)
(39,153)	Department for Transport - North Devon Link Road	(36,248)
	0 Department for Transport - Local Transport Plan (LTP)	(9,332)
(13,022)	Department for Energy Security and Net Zero	(8,897)
(1,012)	Department for Education - Special Educational Needs (SEN)	(4,092)
(1,367)	Department for Transport - Active Travel Funds	(2,874)
	0 Local Government Contribution - HIF	(1,685)
(1,124)	Department for Education - Devolved Formula Capital Grant	(1,032)
(6,400)	Other Grants & Contributions	(5,752)
(102,906)		(117,112)

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 2021. 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 2022/23 are as follows:

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

2021/22 £000		2022/23 £000
697,563	Opening Capital Financing Requirement	686,652
697,563		686,652
	Capital Investment	
121,698	Property, Plant and Equipment	122,860
1,280	Intangible Assets	649
20,455	Revenue Expenditure Funded from Capital under Statute	23,657
750	Capital Loans	0
	Sources of Finance	
(9,598)	Capital Receipts	(7,993)
(130,805)	Government Grants and other contributions	(134,647)
	Sums set aside from revenue:	
(991)	Direct revenue contributions	(1,030)
(58)	External contribution - debt repayments	(8)
(13,871)	Statutory provision for the financing of capital investment	(14,149)
	Capital provision	
4,766	Creation of Long Term Provision	4,537
(4,537)	Provision remaining at year end	(4,314)
686,652	Closing Capital Financing Requirement	676,214
	Explanation of Movements in Year	
5,596	Increase in underlying need to Borrow (unsupported by government financial assistance)	6,197
230	Decrease in Capital Provision	223
(2,054)	(Reduction)/ Increase in PFI liability	(2,590)
(14,683)	Increase in the provision for repayment of debt	(14,268)
(10,911)	Increase/(decrease) in Capital Financing Requirement	(10,438)

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. Materiality should be judged from the viewpoint of both the Council and related party. The Council does not judge what is material to the other party and makes full disclosure. 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.

A member is a director of the Estuary Community Hub Community Interest Company which received payments of just under £6,000 in 2022/23 (2021/22 just under £3,000). Linked to this organisation is the Estuary League of Friends of which this member is vice-chair. Estuary League of friends received just under £9,000 in grants and £33,000 in payment for services (2021/22 just under £1,000 in grants and £40,000 in payment for services). This member is also a director of Topsham Community Association which received just under £2,000 funding from the locality budget.

During 2022/23 a member has served as a non-executive director of Red One (the commercial trading arm of Devon and Somerset Fire and Rescue Service), which has received payments of just over £10,000 from the Council in both 2022/23 and 2021/22. Members do not receive any direct payment from Red One.

A member is the Chair of the Totnes Rural Area Youth Engagement Project which received just over £11,000 (in 2021/22 it was £4,000).

A member's partner is a child minder and has received payments of just under £1,000 in 2022/23 (2021/22 just under £2,000).

A member's partner is a Director of David Wilson Partnership which has had a contract with the North Devon Areas of Outstanding Natural Beauty to provide landscape advice since 2010. Payments from the Council to David Wilson Partnership amounted to just over £11,000 in 2022/23 (2021/22 just under £11,000).

A member and his partner are Directors of Chapter Care (North Devon) Ltd which received payments of £937,000 in 2022/23 (2021/22 £818,000).

A member is the Chair of Trustees of Clyst Caring Friends which received £28,000 in 2022/23 (2021/22 £27,000).

A member became a Director of Inexeter Ltd in 2022/23, which received payments of just under £1,000 in 2022/23. This member is also a Trustee of Citizens Advice Exeter. Citizens Advice Devon (CAB Devon) received a grant from the Authority of £400,000 both in 2022/23 and 2021/22, which then makes distributions to the various Citizens Advice Bureaus in Devon.

Nine County Council members are Trustees of Hele's Educational Trust, whose purpose is to make grants to maintained schools, to Academy schools which have formerly been maintained schools and to Exeter College for special benefits or purposes outside their core public funding and to those individuals under the age of 25 who have attended any of these schools to promote their continuing education. The Trust has £2.5 million of endowment funds, and the annual transactions between the Council and the Trust were below £3,000 both in 2022/23 and 2021/22.

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 / Chief Officers are required to declare any transactions with the Authority. In 2022/23 there are no transactions that require disclosure.

34.1 Local Levies

The following levies were paid during the year:

2021/22		2022/23
£000		£000
629	Environment Agency	639
348	DSIFCA	359

All levies were due and paid during the year.

The Council's Director of Finance and Public Value acts as the Chief Finance Officer for the Devon and Severn Inshore Fisheries and Conservation Authority (DSIFCA). The Authority owed the DSIFCA £103,000 at 31 March 2023 (the DSIFCA owed the Authority £27,000 at 31 March 2022). The Council received payments of £19,000 (2021/22 £21,000).

34.2 Other public sector bodies

Devon County Council received income from the NHS Commissioning Board and NHS Devon Integrated Care Board or ICB (formerly NHS Devon CCG), of £113.7 million in 2022/23 (2021/22 £159.0 million) of which £31.4 million (2021/22 £70.1 million) is included in the Comprehensive Income and Expenditure Account. The income is primarily for funded nursing care and continuing healthcare 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 £2.0 million (2021/22 £2.0 million) during the year to the ICB. At the year end the Authority was due £0.6 million (2021/22 £6.2 million) from the organisations combined and owed it £0.5 million (2021/22 £0.4 million).

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:

2021/22		2022/23
£000		£000
103	Dartmoor National Park	114
71	Exmoor National Park	75

The Council gave grants to Dartmoor National Park Authority of £128,000 (2021/22 £47,000) principally for capital improvements schemes and the maintenance of footpaths, bridleways and footbridges and received grants of £4,000 (2021/22 £5,000) mainly for the support of public rights of way.

The Council also made payments to Exmoor of £62,000 (2021/22 £66,000) mainly for public rights of way.

34.3 Transaction with the Pension Fund

The Council charged the Fund £3.4 million (2021/22 £3.2 million) for expenses incurred in administering the fund, of which £3.2 million was due to the Council at 31 March 2023 (31 March 2022 £3.0 million).

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 £100,000 (2021/22 £152,000) 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 £942,000 (2021/22 £863,000) and the Council for Voluntary Services £58,000 (2021/22 - £37,000) from the Council conditional on long term agreements for the provision of services.

The Community Council of Devon has received grants of £445,000 (2021/22 £246,000) conditional on long term agreements for the provision of services.

Local Council Tax Schemes have received assistance valued at £44,000 (2021/22 £36,000).

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 2022/23 Devon Disability Collective received £1,000 from the County Council (2021/22 £2,000). The Devon Disability Collective has a loan with the County Council. At 31 March 2023 the outstanding balance is £63,000, of which £51,000 is due after 12 months.

Devon County Council has the following transactions with these organisations:

	2021/22	2022/23
	£000	£000
The South West Heritage Trust (company number 09053532) – 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.	Receipts (9)	(1)
	Payments 432	463
	Debtors 1	0
	Creditors 6	0
Libraries Unlimited (company number 9822597, charity number 1170092) – 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.	Receipts (162)	(217)
	Payments 7,523	7,575
	Debtors 20	11
	Creditors (15)	0
DYS Space Ltd (company number 10229618) – 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 contract from Devon County Council which has been extended until March 2025.	Receipts (75)	(84)
	Payments 2,810	2,538
	Debtors 10	19
	Creditors (170)	0

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 Integrated Care Board or ICB (formerly NHS Devon CCG) in the provision of services to support reduced hospital admissions and length of stay. 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 2022/23	NHS Devon CCG 2022/23	Devon County Revenue 2022/23	Capital 2022/23	TOTAL 2022/23
Income	£000	£000	£000	£000
Contributions	(68,383)	(43,255)	(8,245)	(119,883)
add prior year carry forwards		(10,638)		(10,638)
less carry forwards / refunds due		8,304		8,304
Income	(68,383)	(45,589)	(8,245)	(122,217)
Expenditure	£000	£000	£000	£000
Disabled Facilities Grants			8,245	8,245
Improved Better Care Fund Grant		21,790		21,790
Enabling Schemes	2,550	110		2,660
Enhanced Support for Carers / Care Act Duties	2,883	2,506		5,389
Enhanced Community Equipment Service	5,580	3,384		8,964
Frailty and Community Care Services, Support to Social Care, Social Care Reablement	43,658	4,896		48,554
Rapid Response Services	3,008	295		3,303
Step Up Step Down Care Services	3,518	(146)		3,372
Hospital discharge services	6,333	13,051		19,384
Dementia Diagnosis	439	(269)		170
Single Point Co-ordination	414	(28)		386
Total Expenditure	68,383	45,589	8,245	122,217
Better Care Fund 2021/22	NHS Devon CCG 2021/22	Devon County Council Revenue 2021/22	Capital 2021/22	TOTAL 2021/22
Income	£000	£000	£000	£000
Contributions	(61,126)	(32,425)	(8,245)	(101,796)
add prior year carry forwards	0	(7,279)	0	(7,279)
less carry forwards / refunds due		10,638		10,638
Income	(61,126)	(29,066)	(8,245)	(98,437)
Expenditure	£000	£000	£000	£000
Disabled Facilities Grants			8,245	8,245
Improved Better Care Fund Grant		24,539		24,539
Enabling Schemes	2,580	17		2,597
Enhanced Carers Offer/ Care Implementation Act	2,778	2,079		4,857
Enhanced Community Equipment Service	5,580	2,412		7,992
Frailty and Community Care Services, Support to Social Services	41,766	(106)		41,660
Rapid Response Services	3,008	295		3,303
Step Up Step Down Care Services	3,588	(205)		3,383
Hospital discharge services	967	62		1,029
Dementia Diagnosis	445	(41)		404
Single Point Co-ordination	414	14		428
Total Expenditure	61,126	29,066	8,245	98,437

At 31 March 2023 the value of community equipment held as stock amounts to £2.4 million (£1.8 million 31 March 2022) of which the County Council's share included in the balance sheet is £1.2 million (£0.9 million at 31 March 2022).

Reference - see below		2021/22			2022/23		
		Contribution - other partners £000	Council's Contribution £000	Total Expenditure £000	Contribution - other partners £000	Council's Contribution £000	Total Expenditure £000
	Health - Section 75 partnerships						
a	Integrated Health and Social Care	(1,077)	(1,226)	2,303	(1,407)	(990)	2,397
b	Mental Health Services - Devon Partnership NHS Trust	0	(1,466)	1,466	0	(1,573)	1,573
c	NHS Devon ICB - Children's Services	(9,523)	(4,496)	14,019	(9,198)	(1,600)	10,798
	Other partnerships						
d	Devon Audit Partnership	(1,452)	(480)	1,932	(1,623)	(495)	2,118
e	South West Devon Waste Partnership	(12,581)	(6,269)	18,850	(12,568)	(5,621)	18,189
f	Devon Youth Justice Team	(983)	(299)	1,282	(1,054)	(299)	1,353
g	Devon Children and Families Partnership (DCFP)	(157)	(126)	283	(155)	(126)	281
h	Adopt South West	(3,515)	(2,032)	5,547	(3,437)	(1,970)	5,407

- 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 ICB, 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 Integrated Care Board.
- c) The Children's S75 Partnership agreement with NHS Devon ICB relates to the commissioning of Community Health and Care services for children in Devon. This is a pooled arrangement with the ICB which commenced 1st April 2019 and it covers the services of Occupational Therapy and Child and Adolescent Mental Health Services (CAMHS). From 2021/22 Short Breaks and Family Based Carer's Breaks are no longer included in the formal S75 agreement.
- 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 Devon Youth Justice Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police & Crime Commissioner, NHS Devon ICB, 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 ICB, 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:

	2021/22	2022/23
	£000	£000
Skypark Development Partnership LLP (company number OC343583). The Authority 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.		
Receipts	0	0
Payments	0	0
Debtor Loans	2,150	2,150
Creditors	0	0

	2021/22	2022/23
	£000	£000
Exeter Science Park (company number 06828415). The Authority holds a 46.02% interest in this company which was set up on 24th February 2009. The other partners are East Devon District Council, Exeter City Council and the University of Exeter.		
Receipts	(408)	(185)
Payments	0	2
Debtors	0	0
Creditors	0	0

	2021/22	2022/23
	£000	£000
CSW Group Ltd, formerly Careers South West (company number 03029947). A local authority controlled company which provides post 16 transition and careers services to young people. 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.		
Receipts	(4)	(3)
Payments	1,948	2,414
Debtors	61	60
Creditors	(350)	(350)

	2021/22	2022/23
	£000	£000
NPS South West (company number 06078903). The Authority holds equity of 20%. From 30 April 2022 activity has significantly reduced to a negligible level. The ultimate parent of the 80% stake is Norse Group Limited which is 100% owned by Norfolk County Council.		
Receipts	(144)	(326)
Payments	4,911	1,301
Debtors	169	169
Creditors	(120)	(82)

	2021/22	2022/23
	£000	£000
Norse South West Limited, formerly Devon Norse Limited (company number 07553812). The Authority holds equity of 20%. The company provides a range of facilities management (including catering and cleaning), as well as multidisciplinary property consultancy services to commercial and public sector clients within the South West. The ultimate parent of the 80% stake is Norse Group Limited which is 100% owned by Norfolk County Council.		
Receipts	(324)	(826)
Payments	6,930	9,998
Debtors	384	422
Creditors	(271)	(155)

Associated Companies and Joint Ventures (continued)

Babcock Learning & Development Partnership LLP

(company number OC372058) 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. This arrangement ended on 1 August 2022 when staff were brought back in house into the County Council.

	2021/22	2022/23
	£000	£000
Receipts	(149)	(120)
Payments	13,088	4,838
Debtors	16	23
Creditors	(290)	(126)

South West Grid for Learning Trust (company number 05589479, charity number 1120354)

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.

	2021/22	2022/23
	£000	£000
Receipts	(1)	0
Payments	247	103
Debtors	0	0
Creditors	0	0

Meldon Viaduct Trust Company Limited (company number 03625472)

A private company limited by guarantee without share capital. The Council appoints two of the seven trustees. The other members of the Company are Aggregate Industries UK Limited, West Devon Borough Council, Dartmouth National Park and Sustrans.

	2021/22	2022/23
	£000	£000
Receipts	0	0
Payments	9	9
Debtors	0	0
Creditors	0	0

Plymouth and South Devon Freeport Limited (company number 14109106)

Incorporated on 16 May 2022 for the promotion and delivery of programmes and initiatives which are capable of establishing and maintaining the Plymouth and South Devon Freeport. Devon County Council shares control with Plymouth City Council and South Hams District Council.

There are currently no transactions with this company.

DEXTCo Limited (company number 10506296)

Incorporated on 1 December 2016 and currently dormant. Devon County Council is a shareholder with the following organisations: Exeter City Council, Royal Devon and Exeter NHS Foundation Trust, the University of Exeter and Teignbridge District Council.

There are currently no transactions with this company.

Okehampton East Management Company (company number 10669620). The company is dormant. Devon County Council is the only member.

Exeter Skypark (company number 02021631) - dormant and has never been used.

35. Private Finance Initiative and Similar Contracts

Exeter Schools - PFI Scheme

2022/23 was the eighteenth 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

2021/22		2022/23
£000		£000
	Property Plant & Equipment	
6,437	Opening Net Book Value	6,918
(361)	Depreciation	(392)
842	Revaluations	681
6,918	Closing Net Book Value	7,207

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 (PWL) new borrowing rate in force on 31st March 2022 and 31st March 2023.

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

2021/22		2022/23
£000		£000
(47,997)	Opening Liability	(44,010)
3,987	Repayment of Liability	4,368
<u>(44,010)</u>	Closing Liability	<u>(39,642)</u>
<u>(60,315)</u>	Fair Value	<u>(47,558)</u>

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	Interest Charges	Service Charges	Other Cash Charges	Total Payments
	£000	£000	£000	£000	£000
Within 1 year	4,467	3,263	3,444	1,505	12,679
Within 2 - 5 years	14,269	9,873	14,793	10,464	49,399
Within 6 - 10 years	16,333	5,969	21,020	16,077	59,399
Within 11 - 15 years	4,573	376	4,560	1,493	11,002
	<u>39,642</u>	<u>19,481</u>	<u>43,817</u>	<u>29,539</u>	<u>132,479</u>

Payments under the contract commenced in 2005/06. For both the on balance sheet schools and the off balance sheet schools, the total payment under the contract amounts to £336 million. Set against this is a grant of £248 million that will be received from central government. Of the balance, £62 million will be met from delegated school budgets and the remainder (£26 million) will be financed by the County Council. In 2022/23, Devon County Council's contribution was £1.0 million.

The un-discharged net asset owed to Devon County Council under the contract is £475,000 of which the maximum liability in any year is £783,000. This is based upon an assumed inflation rate of 2.5%. If inflation is 1% greater than this then Devon County Council's un-discharged net liability will be £335,000, an increase in liability of £810,000.

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.

2021/22 £000	Property Plant & Equipment	2022/23 £000
47,492	Opening Net Book Value	49,383
(1,979)	Depreciation	(2,147)
3,870	Revaluations	3,761
49,383	Closing Net Book Value	50,997

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

2021/22 £000		2022/23 £000
(42,108)	Opening liability	(41,635)
473	Repayment of Liability	676
(41,635)	Closing Liability	(40,959)
(81,705)	Fair Value	(65,269)

Value of Deferred Credit held under Service Concession

2021/22 £000		2022/23 £000
(2,480)	Opening deferred credit	(2,374)
106	Release of deferred income	106
(2,374)	Closing Liability	(2,268)

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 2023.

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	297	5,042	4,374	9,713
Within 2 - 5 years	3,457	21,377	16,506	41,340
Within 6 - 10 years	5,714	28,081	23,966	57,761
Within 11 - 15 years	9,561	28,914	26,877	65,352
Within 16 - 20 years	16,408	28,316	29,215	73,939
Within 21 - 25 years	5,522	6,646	7,947	20,115
	40,959	118,376	108,885	268,220

Payments under the contract commenced in 2014/15. Based upon an assumed inflation rate of 2.5% the total payments under the contract will amount to £343.1 million. 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 over £268.2 million of which the maximum in any year is £16 million although that is not until 2043/44. In 2022/23, the Authority paid £9.3 million 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 £33.8 million to £302.0 million.

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

2021/22		2022/23
£000		£000
	Property Plant & Equipment	
64,762	Initial recognition	64,527
(3,469)	Depreciation	(3,652)
3,234	Revaluations	4,384
<u>64,527</u>	Closing Net Book Value	<u>65,259</u>

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 Liabilities held under PFI contract

2021/22		2022/23
£000		£000
(24,543)	Initial recognition	(24,365)
178	Repayment of Liability	511
<u>(24,365)</u>	Closing Liability	<u>(23,854)</u>
<u>(45,100)</u>	Fair Value	<u>(37,100)</u>

Value of Deferred Credit held under PFI contract

2021/22		2022/23
£000		£000
(33,027)	Opening deferred credit	(31,289)
1,738	Release of deferred income	1,738
<u>(31,289)</u>	Closing Liability	<u>(29,551)</u>

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 2023.

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	Net Interest Charges / Contingent Rental	Service Charges	Total Payments
	£'000	£'000	£'000	£'000
Within 1 year	517	2,172	3,171	5,860
Within 2 - 5 years	2,145	7,462	14,107	23,714
Within 6 - 10 years	5,819	6,910	18,129	30,858
Within 11 - 15 years	10,355	1,387	21,469	33,211
Within 16 - 20 years	5,018	(1,328)	7,844	11,534
	23,854	16,603	64,720	105,177

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 £148.5 million. 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 £105.2 million of which the maximum in any year is £6.9 million although that is not until 2038/39. In 2022/23, the Authority paid £5.8 million 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 £9.8 million to £115.0 million

36. Leases and Contract Hire

Finance leases (Council as Lessor)

Land and buildings: The Council has 102 assets that are leased to tenants that meet the definition of a finance lease. The present value at 31 March 2023 of the rental payments due to the Council is £3.205 million. 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 21 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 £1.601 million. 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:

2021/22	Property £000	Equipment £000	Contract Hire £000	Total £000
Not later than 1 year	1,595	401	0	1,996
Later than 1 year but not later than 5 years	3,695	608	0	4,303
Later than 5 years	4,272	1	0	4,273
	9,562	1,010	0	10,572

2022/23	Property £000	Equipment £000	Contract Hire £000	Total £000
Not later than 1 year	1,573	230	0	1,803
Later than 1 year but not later than 5 years	3,862	263	0	4,125
Later than 5 years	4,203	37	0	4,240
	9,638	530	0	10,168

The expenditure charged to cost of services in the comprehensive income and expenditure statement was:

	Property £000	Equipment £000	Contract Hire £000	Total £000
2021/22				
Minimum lease payments	1,595	279	0	1,874
	1,595	279	0	1,874
2022/23				
Minimum lease payments	1,573	257	0	1,830
	1,573	257	0	1,830

Operating leases (Council as Lessor)

The rental received for operating property leased to third parties for the year is £1.858 million of which £1.213 million relates to smallholdings. The carrying value of smallholdings at 31 March 2023 is £15.617 million. 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:

2021/22 £000		2022/23 £000
2,516	Not later than 1 year	2,482
5,929	Later than 1 year but not later than 5 years	6,939
3,307	Later than 5 years	4,227
11,752		13,648

The income receivable in Cost of Services in the Comprehensive Income and Expenditure Statement was:

2021/22 £000		2022/23 £000
2,516	Minimum lease payments	2,482
2,516		2,482

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 disclose 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 must 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 $\frac{1}{60}$ th of the member's final salary multiplied by the amount of service between April 2008 and March 2014
- A guaranteed pension calculated as $\frac{1}{80}$ th 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 $\frac{3}{80}$ ths 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 146 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

	2021/22	2022/23
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
Current service cost	101,476	94,289
Past service costs, including curtailments	171	264
(Gain)/loss from settlements	(7,536)	(5,461)
Pre 01/04/98 unfunded benefits actuarial (gains)/losses	(5,324)	859
Financing and Investment Income and Expenditure:		
Net interest expense	25,597	22,953
Administration expense	930	982
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	115,314	113,886
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:		
Remeasurement of the net defined benefit liability comprising:		
*Cost of Services Adjustment - Revised 2021/22 IAS19	(8,769)	0
Return on plan assets (excluding the amount included in the net interest expense)	(88,232)	64,127
Other actuarial gains / (losses) on assets	2,234	0
Actuarial (gain) and loss arising on changes in demographic assumptions	(149,901)	0
Actuarial (gain) and loss arising on changes in financial assumptions	(98,726)	(986,538)
Experience loss/(gain) on defined benefit obligation	(136,256)	208,111
Remeasurement of the net defined benefit liability	(479,650)	(714,300)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(364,336)	(600,414)
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)	115,314	113,886

	Funded Liabilities		Unfunded Liabilities		Total Liabilities	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000	£000	£000
Actual amount charged against the General Fund Balance for pensions in the year:						
Employers contributions payable to scheme	42,724	46,921	0	0	42,724	46,921
Retirement benefits payable to pensioners	0	0	8,628	8,368	8,628	8,368
Contribution to pre 01/04/98 unfunded benefits	0	0	(2,079)	(2,015)	(2,079)	(2,015)
	42,724	46,921	6,549	6,353	49,273	53,274

The estimated duration of the liabilities is 16 years.

The capitalised cost of curtailments arising because of the payment of unreduced pensions to former employees on early retirement to the Authority is £0.26 million (£0.17 million 2021/22).

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 £5.46 million (£7.54 million gain 2021/22).

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		Unfunded Liabilities		Total	
	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000
Present value of the defined benefit obligation	(2,439,976)	(1,754,280)	(92,563)	(80,665)	(2,532,539)	(1,834,945)
Fair value of plan assets	1,624,885	1,572,838	0	0	1,624,885	1,572,838
Net liability arising from defined benefit obligation	(815,091)	(181,442)	(92,563)	(80,665)	(907,654)	(262,107)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Local Government Pension Scheme and Unfunded Benefit Arrangements

	2021/22 £000	2022/23 £000
Opening fair value of scheme assets	1,536,162	1,624,885
Interest income	30,478	41,877
Administration Expenses	(994)	(982)
Remeasurement gain/(loss):	(2,234)	0
The return on plan assets, excluding the amount included in the net interest expense	88,232	(64,127)
Employer contributions	40,588	44,274
Contributions by scheme participants	13,159	14,312
Settlement prices received/paid	(2,437)	(3,905)
Benefits paid	(78,069)	(83,496)
Total Assets	1,624,885	1,572,838

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Local Government Pension Scheme and Unfunded Benefits - Liabilities

	2021/22	2022/23
	£000	£000
Opening balance	(2,840,172)	(2,532,539)
Current Service Cost	(95,887)	(94,289)
Interest Cost	(56,075)	(64,830)
Contributions from scheme participants	(13,159)	(14,312)
Remeasurement gains/(losses):		
Actuarial gains and losses arising on changes in demographic assumptions	149,901	0
Actuarial gains and losses arising on changes in financial assumptions	98,726	986,538
Experience (loss)/gains on defined benefit obligation	136,256	(208,111)
Past service costs, including curtailments	(171)	(264)
Liabilities assumed/(extinguished) on settlements	9,973	9,366
Benefits paid	78,069	83,496
Total (Liability)	(2,532,539)	(1,834,945)

Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	31 March 2022		31 March 2023	
	£000	%	£000	%
Gilts	217,056	13%	0	0%
UK Equities	145,753	9%	124,069	8%
Overseas Equities	822,501	51%	704,564	45%
Property	136,294	9%	137,868	9%
Infrastructure	97,514	6%	141,416	9%
Target Return Portfolio	150,852	9%	109,319	7%
Cash	23,044	1%	18,680	1%
Other Bonds	32,562	2%	336,310	21%
Alternative assets	(691)	0%	612	0%
Net Asset / (Liability)	1,624,885	100%	1,572,838	100%

Fair Value of Scheme Assets

	31 March 2023			
	£000	% Quoted	£000	% Unquoted
Fixed interest government securities				
UK	0		0	
Overseas	0		0	
Corporate bonds				
UK	110,099	7%	0	
Overseas	0		0	
Equities				
UK	110,099	7%	0	
Overseas	692,049	44%	0	
Property				
All	0		141,555	9%
Others				
Absolute return portfolio	110,099	7%	0	
Private Equity	0		15,728	1%
Infrastructure	0		141,555	9%
Derivatives	0		0	
Multi sector credit fund	188,741	12%	0	
Private Debt	0		47,185	3%
Cash/Temporary investments	0		15,728	1%
Net current assets				
Debtors	0		0	
Creditors	0		0	
	1,211,087	77%	361,751	23%

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 2022.

The significant assumptions used by the actuary have been:

	Funded		Unfunded	
	2021/22	2022/23	2021/22	2022/23
Long-term expected rate of return on assets in the scheme:				
Discount rate	2.60%	4.80%		
Financial Assumptions:				
Pension increases (CPI)	3.2%	2.95%		
Salary increases	4.2%	3.95%		
Mortality Assumptions:				
Life Expectancy from age 65 (years) - Retiring today:				
Men	21.7	21.8	21.7	21.8
Women	22.9	22.9	22.9	22.9
Life Expectancy from age 65 (years) - Retiring in 20 years:				
Men	23.0	23.1	23.0	23.1
Women	24.3	24.4	24.3	24.4

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.

31 March 2023

Sensitivity Analysis	£000	£000	£000	£000	£000
Adjustment to discount rate	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present value of total obligation	1,707,055	1,808,108	1,834,945	1,862,452	1,979,630
Projected service cost	35,522	40,709	42,117	43,573	49,917
Adjustment to long term salary increase	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present value of total obligation	1,844,372	1,836,802	1,834,945	1,833,101	1,825,864
Projected service cost	42,253	42,144	42,117	42,090	41,981
Adjustment to pension increase and deferred revaluation	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present value of total obligation	1,972,214	1,861,067	1,834,945	1,809,449	1,713,380
Projected service cost	50,122	43,591	42,117	40,691	35,325
Adjustment to life expectancy assumptions	+1 Year		None		-1 Year
Present value of total obligation	1,911,711		1,834,945		1,761,628
Projected service cost	43,595		42,117		40,677

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 19 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 £42,829 million (£35.698 million in 2021/22).

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 2022/23, the authority paid £20.67 million (£20.45 million in 2021/22) to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. There were no contributions remaining payable at the year-end.

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.

The NHS Pension Scheme employer contribution rate increased on 1 April 2019 from 14.3% to 20.6%, plus the employer levy of 0.08%. The Authority paid £633,503 in 2022/23 (£802,000 in 2021/22). 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 7 members of Public Health staff as the others have ceased being an 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.

The Supreme Court has refused the Government's application to appeal the judgement. In July 2020, the Government published a consultation on the proposed remedy to be applied to LGPC benefits in response to the McCloud / Sargeant case. This consultation closed in October 2020 and the Government published its response in April 2023. In May 2023 the Government published a further consultation on the 'McCloud' remedy and proposed changes to the LGPS regulations. This latest consultation closes on 30 June 2023. The Government will take steps to finalise the draft regulations in September 2023 and we anticipate that the final regulations will come into force on 1 October 2023. As before, until these are confirmed and published the extent to which additional costs would fall on the Authority is uncertain, but the Actuary does not believe there are any material differences between the approach underlying their estimated allowance and the proposed remedy.

The presumed remedy is for the Authority to incur costs in extending protections to all members who were active at 31 March 2012 until their retirement.

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

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 million made to Exeter Science Park Ltd from the Local Enterprise Partnership. The Authority has provided for a liability of £1.831 million at 31 March 2023 (£1.831 million at 31 March 2022). 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 South West Norse 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. This guarantee expires in September 2023.
- 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 one property with an estimated value of £600,000 (£600,000 in 2021/22 for one property).
- The Authority guarantees care leaver's tenancy agreements in the event of non-payment of rent. The guarantees extend to 18 care leavers with an estimated maximum liability of £120,000 in any one year (£167,000 in 2021/22 for 26 care leavers).
- 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.

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.

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.

DEBT

External debt consists of borrowing and other long-term liabilities (such as Private Finance Initiatives and other similar contracts). The **Authorised Limit** to debt represents the level at which the Council is able to borrow and enter into other long-term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Council.

The **Operational Boundary** is based on the anticipated level of external debt needed during the year. Variations in cash flow may lead to occasional short term breaches of the Operational Boundary that are acceptable.

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.

DEDICATED SCHOOLS GRANT (DSG) ADJUSTMENT ACCOUNT

This is a new unusable reserve which holds negative (deficit) balances from the expenditure against the Dedicated Schools Grant. It has been established as a result of new statutory regulations which came into force from November 2020, whereby a local authority must not charge any deficit in respect of its schools' budget to its revenue account. Instead, any such deficit should be charged to a separate account - the DSG Adjustment Account - in effect removing it from the General Fund and earmarked reserves. Initially these regulations were in force for three years from 2020/21 but they have been extended for a further three years until March 2026.

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.

FINANCIAL INSTRUMENTS REVALUATION RESERVE

The Council holds financial assets measured at fair value through other comprehensive income (CCLA, NPS and Science Park) Where the fair value of these assets differs from the purchase price (initial recognition / cost) then the revaluation amount is held in this reserve.

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:

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
DLUHC	= Department for Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities and Local Government)
DWP	= Department for Work & Pensions
EU	= European Union
MoD	= Ministry of Defence
NE	= Natural England
P4S	= Partnership for Schools
PSA	= Public Service Agreement
SCITT	= School Centred Initial Teacher Training

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 Director of Finance and Public Value.

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.

Unaudited Pension Fund
Statement of Accounts
2022/23

Unaudited Pension Fund Statement of Accounts 2022/23

Report of the Director of Finance and Public Value

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Report of the Director of Finance and Public Value

2022/23 has been a difficult year for investment markets. Geo-political concerns following Russia's invasion of Ukraine, along with rising inflation and interest rates, have weighed heavily over investment markets. Under the circumstances the investment return for the year of -1.5% could have been worse. The value of the Devon Pension Fund fell from £5.412 billion, as at 31 March 2022, to £5.313 billion as at 31 March 2023. The Fund's investment return was below the Fund's strategic benchmark (a weighted average of the underlying benchmarks) of +0.9% but compared well with the median LGPS universe average of -3.3%.

During the first quarter of the year, we implemented changes to our investment strategy, reducing our equity exposure and increasing our exposure to fixed interest and our commitment to private markets. This was done with the intention of reducing risk but maintaining the return potential of our investments. The majority of our investments continue to be managed by the Brunel Pension Partnership who undertake the selection and monitoring of the external investment managers who manage the portfolios that we choose to invest in. While we aim to maximise the investment return at an appropriate level of risk, we also work in partnership with Brunel to act as good stewards of the shares in which we invest and manage the climate impact of our investments. During the year we were re-accredited as signatories of the UK Stewardship Code for our work in this area.

The administration of pension benefits is undertaken for the Devon Fund by Peninsula Pensions, a shared pensions administration service between Devon and Somerset. Peninsula Pensions continues to deliver strong performance for both members and employers despite the challenges of an ongoing increase in demand, alongside staff recruitment. During 2022/23, the team has introduced further technological solutions relating to payment of member pensions, and data provision from employers; and has other new developments in progress relating to the members online portal. The team is well positioned to manage future challenges, specifically the McCloud remedy and introduction of the Pension Dashboard, whilst ensuring compliance with both current and future LGPS amendments in conjunction with any other relevant regulatory changes. The team has successfully adapted to hybrid working arrangements in line with business needs following COVID-19 and continues to encourage the more efficient use of electronic communication.

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 2023. The first section sets out the income received in contributions from employers and employees, and the expenditure on pension benefit payments. 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 property, infrastructure and private debt investments is returned as cash and can be used to offset any shortfall between contributions and benefit payments. The Fund's equity and bond investments are made via pooled funds which retain and reinvest the income from the individual securities. The Fund Account also shows that there has been a decrease in the capital values of the Fund's investment assets of £95 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

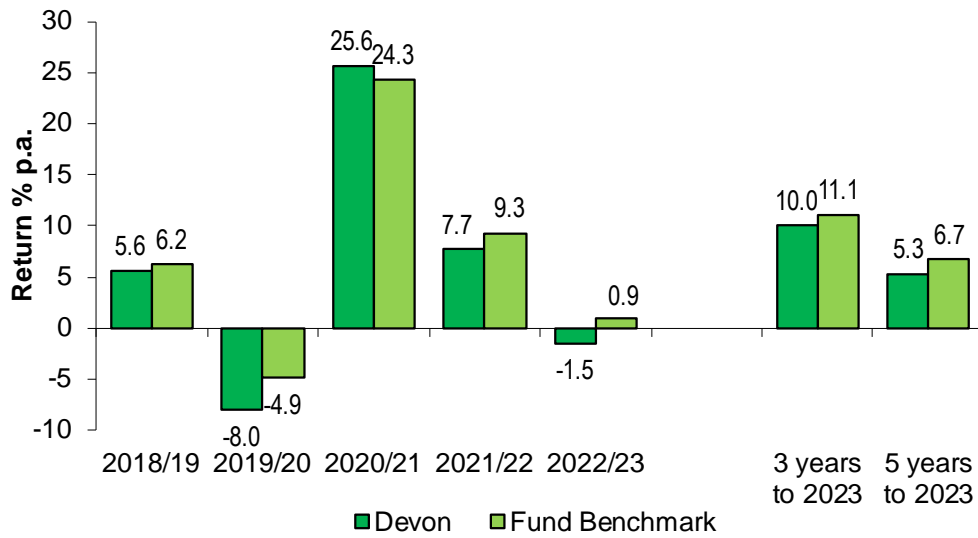
As indicated above, the asset value of the Fund at the end of the 2022/23 financial year was £5.313 billion. This represents an investment return of -1.5% net of fees, compared with the Fund's internally set strategic benchmark target of +0.9%.

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 cash plus benchmark of the Brunel Diversifying Returns and Multi-Asset Credit portfolios means that they are expected to provide a positive return under all market conditions, which was unrealistic over the last year. This meant that the return of -1.5% was significantly below benchmark, but ahead of the LGPS average return.

Bond markets saw negative returns over the year as a result of increasing interest rates. Equity markets were negative over the earlier part of the year but rallied to some extent between September 2022 and March 2023. The relative performance of the active equity portfolios was mixed in a volatile year for the big tech companies who form a large part of the index, and due to the strong performance of oil companies in the early part of the year, to which the Brunel portfolios are underweight compared to the relevant indices. Concern about interest rates also impacted on the UK Property market which saw significant falls in value.

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



Performance over the last year and three years broken down by portfolio is shown in the following chart. Three-year performance is only shown where the portfolio has been invested in for over three years.

Annual Performance 2022/23 by Portfolio



Notes:

Incorporates UK FTSE All Share tracker fund to end of January 2022 and the UK Climate Transition Benchmark fund from 1 February 2022.

Fund Solvency

The Fund is required to have an actuarial valuation conducted every three years. The most recent triennial valuation, as at 31 March 2022, 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 91% to 98%, compared with the previous 2019 valuation.

The results of the 2022 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 £5,316 million against future pension liabilities assessed at £5,405 million, giving a deficit for this valuation of £89 million. The maximum deficit recovery period for any employer in the Fund has been set at 15 years, which is a reduction of 6 years from 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 2023, using the approach of rolling forward the data from the 2022 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 2023 without completing a full valuation, the results will be indicative of the underlying position. As a result of the negative investment return during 2022/23, compared with the Actuarial assumption of a 4.7% return, the Actuary has estimated that on a smoothed basis, considering market conditions as at 31 March 2023, the funding level will have deteriorated to around 93%.

Asset Allocation

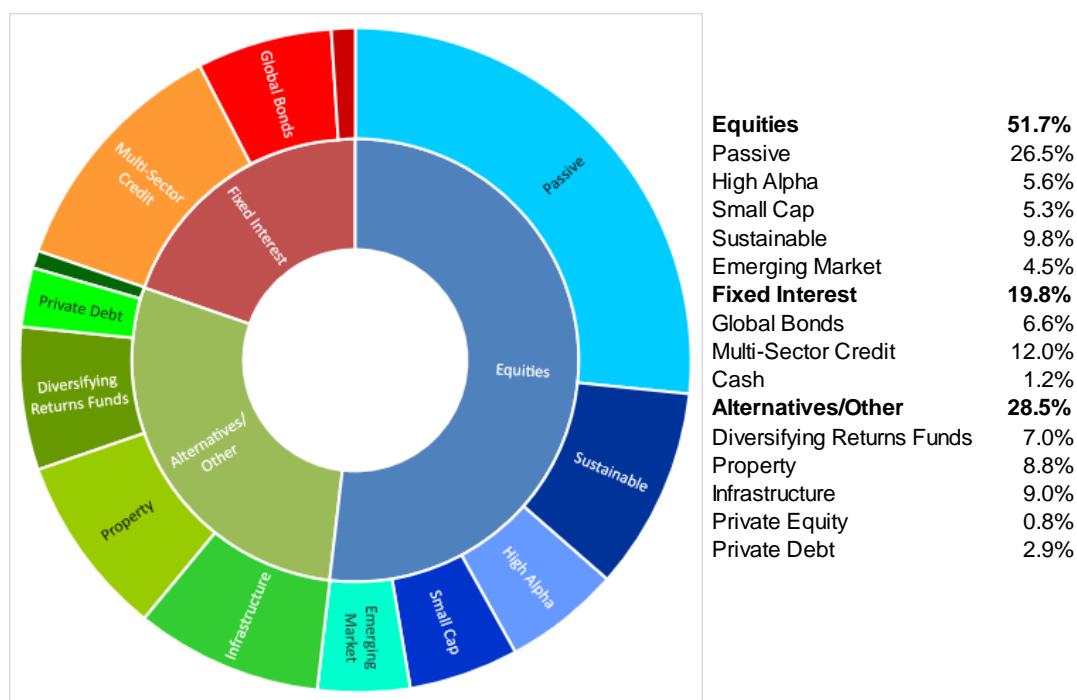
The Investment and Pension Fund Committee is charged with the responsibility for governance and stewardship of the Fund and making decisions about strategic asset allocation policy.

Following the review of investment strategy, carried out by Mercer during early 2022, some changes were made to the investment strategy with a view to reducing risk while maintaining a similar level of return. The allocation to equities was reduced from 58% to 50%. As part of the change, the previous allocation to low volatility equities was removed, on the basis that equity risk was better managed by reducing the total equity allocation rather than having a low volatility allocation. The passive allocation was reduced to 50%, half of the total equity allocation. The allocation to Sustainable Equities was increased to 10% in line with the Fund's climate change policies and to better manage ESG (Environmental, Social and Governance) risk.

The allocation to fixed interest was increased to 20%. This was achieved by an increase of 5% to multi-asset credit, which is the riskier end of the fixed interest market but will still provide some diversification from equities. The medium-term allocation to private markets was increased to 30%, but with an adjustment to the 2022/23 allocation. This reflects the reality that private market investments take some time to build up and a short-term allocation to diversified returns funds would be required to hold the funds to be drawn to fund private markets commitments.

The Fund's actual asset allocation as at 31 March 2023 is shown in the following chart:

Actual Asset Allocation as at 31 March 2023



A comparison of the actual allocation as at 31 March 2023 with the Fund's target allocation for 2022/23 is shown in the following table:

Actual Asset Allocation Compared to Target

	as at 31 March 2022		as at 31 March 2023		
	Target allocation	Actual allocation	Target allocation	Actual allocation	Variation from Target
	%	%	%	%	%
Sterling Corporate Bonds	7.0	6.1	7.0	6.6	
Multi-Sector Credit	7.0	7.3	12.0	12.0	
Cash	1.0	0.5	1.0	1.2	
Total Fixed Interest	15.0	13.9	20.0	19.8	-0.2
Passive Equities	31.0	31.6	25.0	26.5	
Active Global Equities	5.0	5.5	5.0	5.6	
Active Small Cap Equities	5.0	5.3	5.0	5.3	
Active Sustainable Equities	5.0	4.8	10.0	9.8	
Active Emerging Markets Equities	5.0	4.6	5.0	4.5	
Active Low Volatility Equities	7.0	7.2	-	-	
Total Equities	58.0	59.0	50.0	51.7	+1.7
Diversified Growth Funds	7.0	9.3	6.0	7.0	
Property	10.0	9.4	10.0	8.8	
Infrastructure	6.0	6.0	8.0	9.0	
Private Equity	1.0	0.5	3.0	0.8	
Private Debt	3.0	2.0	3.0	2.9	
Total Alternatives/Other	27.0	27.2	30.0	28.5	-1.5

Conclusion

It was pleasing to see the good progress the Fund had made in increasing its funding level from 91% to 98% at the 2022 Triennial Valuation, although this has fallen back to some extent as a result of the difficult market conditions over the past year. As a long-term investor, the Fund can take some bumps along the road, so long as the long-term returns remain strong.

The Fund will also continue to manage the ESG impacts of our investments in line with the expectations of fund members as demonstrated by the survey that we undertook during the year. Investing in companies with a sustainable business plan should be supportive of maximising long-term investment returns and managing risk.

Peninsula Pensions, the shared service that administers pension benefits for both the Devon and Somerset Pension Funds, continues to perform well. It is good to see regular compliments being received from pension fund members about the service they receive.

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.

Angie Sinclair

Director of Finance and Public Value

29th June 2023

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 Director of Finance and Public Value.
- Manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Director of Finance and Public Value

The Director of Finance and Public Value 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 Director of Finance and Public Value 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 Director of Finance and Public Value 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 Director of Finance and Public Value

I hereby certify that this Statement of Accounts for the year ended 31st March 2023 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 31st March 2023 and its income and expenditure for the year ended 31st March 2023.

Angie Sinclair

Director of Finance and Public Value

7th September 2023

Approval of the Statement of Accounts

I can confirm that these accounts were approved by the Audit Committee at its meeting on 25th September 2023.

.....

Chair of the Audit Committee

25th September 2023.

Financial Statements

Fund Account - for the year ended 31 March 2023

2021/22 £'000		2022/23 £'000	Notes
	Dealings with members, employers and others directly involved in the fund		
(173,432)	Contributions	(191,150)	7
(13,324)	Transfers in from other pension funds	(13,253)	8
(186,756)		(204,403)	
201,032	Benefits	208,345	9
26,633	Payments to and on account of leavers	10,121	10
227,665		218,466	
40,909	Net (additions)/withdrawals from dealings with members	14,063	
28,453	Management expenses	28,635	11
69,362	Net (additions)/withdrawals including fund management expenses	42,698	
	Returns on investments		
(33,610)	Investment Income	(39,553)	13
(37)	Taxes on income	438	
(380,768)	Profit and losses on disposal of investments and changes in market value of investments	95,569	
(414,415)	Net Returns on Investments	56,454	
(345,052)	Net (increase)/decrease in the net assets available for benefits during the year	99,152	
(5,066,930)	Opening Net Assets of the Scheme	(5,411,983)	
(5,411,982)	Closing Net Assets of the Scheme	(5,312,831)	

Net Assets Statement - for the year ended 31 March 2023

2021/22 £'000		2022/23 £'000	Notes
838	Long Term Investments	707	14
5,414,325	Investment Assets	5,301,537	14
(13,303)	Investment Liabilities	-	14
5,401,860	Total net investments	5,302,244	
	Current Assets and Liabilities		
18,350	Current Assets	17,501	24
(8,228)	Current Liabilities	(6,914)	24
5,411,982	Net assets of the fund available to fund benefits at the end of the reporting period	5,312,831	

Notes to the Net Assets 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 23.

Notes to the Accounts

1. 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 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.devonpensionfund.org.uk/> for further information.

As at 31st March 2023, the net assets of the Devon Pension Fund were valued at £5.313 billion. The fund currently has 39,460 actively contributing members, employed by 212 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 200.	Admitted Body - As listed
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.

Statistical Summary

Financial Summary

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Contributions and Benefits					
Contributions	(176,196)	(248,155)	(214,261)	(173,432)	(191,150)
Transfers in from other pension funds	(6,134)	(17,279)	(12,970)	(13,324)	(13,253)
	(182,330)	(265,434)	(227,231)	(186,756)	(204,403)
Benefits Paid	180,638	188,470	192,439	201,032	208,345
Payments to and on account of leavers	9,747	12,756	8,437	26,633	10,121
	190,385	201,226	200,876	227,665	218,466
Net (Additions) Withdrawals from Dealings with Fund members	8,055	(64,208)	(26,355)	40,909	14,063
Management Expenses	17,999	19,732	20,791	28,453	28,635
Returns on Investments					
Investment Income	(49,937)	(59,351)	(35,020)	(33,646)	(39,115)
(Increase) /decrease in Market Value of Investments during the Year	(191,967)	394,994	(1,015,231)	(380,768)	95,569
Net Returns on Investments	(241,904)	335,643	(1,050,251)	(414,414)	56,454
Net Assets of the Fund at 31 March	(4,302,282)	(4,011,115)	(5,066,930)	(5,411,982)	(5,312,830)

Members Summary

	2018/19 No.	2019/20 No.	2020/21 No.	2021/22 No.	2022/23 No.
Devon County Council					
Contributors	11,166	10,547	11,390	11,574	11,574
Pensioners and Dependants	14,548	14,894	15,148	16,113	16,113
Deferred Pensioners	20,240	19,235	19,520	20,348	20,348
Other Employers					
Contributors	27,458	28,624	28,072	27,886	27,886
Pensioners and Dependants	22,118	21,056	21,847	22,519	22,519
Deferred Pensioners	32,616	32,490	34,004	36,050	36,050

* Deferred pensioners include frozen memberships pending refunds and those undecided pending resolution.

Pensions are paid to 38,632 pensioners (and/or dependants) every month. There are currently 56,398 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 2022/23 were set by the valuation as at 31 March 2019. 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 0.0% to 37.1% of pensionable pay.

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 up rated 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. 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 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.	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.

Employing Bodies

	Active	Ceased	Total
Scheduled body	146	5	151
Admitted body	66	11	77
Total	212	16	228

There are currently 212 employers who have active members in the Fund.

Scheduled bodies

Administering Authority

Devon County Council

Scheduled Bodies

Academy For Character And Excellence	Devon & Somerset Fire & Rescue Service	Plymouth University
Ace MAT	Devon County Council	Plympton Academy
Ace Schools MAT (Plymouth)	Devonport High School For Boys Academy	Reach South Academy Trust
Acorn Multi Academy Trust	Devonport High School For Girls Academy Trust	Riviera Education Trust
Alumnis MAT	Discovery Multi Academy Trust	Seaton Town Council
An Daras Multi Academy Trust	East Devon District Council	Sidmouth Town Council
Ashburton Town Council	Education South West	South Devon College
Avanti Hall School	Exeter City Council	South Hams District Council
Axminster Town Council	Exeter College	South Molton Town Council
Axmouth Parish Council	Exeter Learning Academy Trust	Sparkwell Primary Academy
Aylesbeare Parish Council	Exeter Mathematics School	St Christophers Primary MAT
Barnstaple Town Council	Exmouth Community College	St Christophers MAT
Barton Hill Academy	Exmouth Town Council	St Christophers Secondary MAT
Bay Education Trust	Exwick Ark	St Margaret'S Academy
Bicton College (Cornwall College)	First Federation	Staverton Parish Council
Bideford Town Council	First Federation Trust	Stockland Academy
Bishops Clyst Parish Council	Fremington Parish Council	Stokenham Parish Council
Bishops Tawton Parish Council	Frithelstock Parish Council	Tarka Learning Academy Partnership MAT
Bishopsteignton Parish Council	Great Torrington Academy	Tarka Learning Partnership
Bovey Tracey Town Council	Great Torrington Town Council	Tavistock Town Council
Bradninch Town Council	Greenshaw Learning Trust	Team MAT
Bradworthy Primary Academy	Hayes Road Academy	Team Multi Academy Trust
Braunton Academy	Holcombe Burnell Parish Council	Ted Wragg
Braunton Parish Council	Honiton Community College	Ted Wragg MAT
Brixham Academy	Honiton Town Council	Tedburn St Mary Parish Council
Brixham Town Council	Horizon MAT	Teignbridge District Council
Broadclyst Parish Council	Ilfracombe Town Council	Teignmouth Town Council
Buckland Monachorum Parish Council	Ivybridge Town Council	The Inspire MAT
Budleigh Salterton Town Council	Kings Academy	Thinking Schools Academy Trust
Catch 22 Multi Academy Trust	Kingsbridge Town Council	Tor Bridge High Academy
Chudleigh Town Council	Kingsteignton Town Council	Torbay Council
Chulmleigh Academy Trust	Launceston MAT	Torquay Boys' Grammar School Multi Academy Trust
Churston Academy	Learning Academies MAT	Torquay Girls Academy
City College Plymouth	Learning Academy Partnership (South West)	Torre Church Of England Academy
Clyst Honiton Parish Council	Link Academy Trust	Torrige District Council
Clyst Vale Community College Academy	Lipson Academy	Totnes Town Council
Colyton Grammar School Academy	Littleton Primary Academy	TSAT
Combe Martin Parish Council	Lynton & Lynmouth Town Council	Uffculme Academy Trust
Connect Academy Trust	Mid Devon District Council	Ugborough Parish Council
Coombe Pafford Academy	Moretonhampstead Parish Council	United Schools Trust
Cornerstone Academy Trust	Newton Abbot Town Council	Uplyme Parish Council
Cranbrook Town Council	North Devon District Council	Ventrus MAT
Crediton Town Council	Okehampton Town Council	Wave MAT
Cullompton Town Council	Orchard Manor Academy	West Devon Borough Council
Dartington Parish Council	Osprey Learning Trust	Westcountry Schools Trust
Dartmoor MAT	Petroc	Witheridge Parish Council
Dartmoor National Park	Plymouth Cast	
Dartmouth Town Council	Plymouth City Bus	
Dawlish Town Council	Plymouth City Council	
Devon & Cornwall Police And Crime Commissioner	Plymouth College Of Art & Design	

Admitted bodies

Admitted Bodies

3 Rivers Development Ltd	Devon Wildlife Trust	Pinnacle
Access Plymouth	Direct Clean Services (Exmouth CC)	Plymouth Active Life
Action For Children	DYS Space Ltd	Plymouth Citizen'S Advice Bureau
Aspens Services Ltd	Expedite Ltd	Plymouth Community Homes
Babcock	Fishkids	Plymouth Learning Partnership (PLP)
Barnados	Fresha	Quadron Services Ltd
Betterclean	Fusion Leisure	Red One Ltd
Biffa Waste Services Ltd	Healthwatch	Servicemaster Clean Contr Serv
Bournemouth Churches Housing Association	Innovate	Sodexo
Burton Art Gallery	Interserve Catering Services Plymouth	South West Highways
Catered Limited	Interserve Projects Ltd	Specialist Fleet Services Ltd (NDDC)
Chartwells (OLCS)	Led Leisure Management Ltd	Strata
Churchills Services	Libraries Unlimited	Swisco Ltd - Tor 2 Combined All 3
Compass Group UK	Livewell South West	The Deaf Academy
Dame Hannah Rogers School	Mama Bears Day Nursery	Torbay Coast & Countryside Trust
DCC South West Heritage Trust	Millfields Trust	Torbay Community Development Trust
DELT	Mitie Plc (Devon)	Torbay Economic Development Academy
Devon & Severn IFCA	NHS Care	Torbay Education Ltd
Devon Norse Catering	NHS Devon LCB	Torbay Youth Trust
Devon Norse Cleaning	North Devon Homes	University Commercial Services
Devon Norse FM	North Devon Joint Crematorium	Westward Housing Group
Devon Schools Leadership Services	Peninsula Dental Social Enterprise	Wolseley Community Economic Development Trust

Management Structure

Administering Authority Devon County Council
County Hall
Exeter
EX2 4QD

Investment and Pension Fund Committee (at 31 March 2023)

Representing Devon County Council	Councillor James Morrish Councillor Yvonne Atkinson Councillor Phil Bullivant Councillor George Gribble Councillor Henry Gent Councillor Marcus Hartnell	(Chairman)
Representing Devon Unitary & District Councils	Councillor Judy Pearce Councillor Andy Luggar Councillor James O'Dwyer	(Devon District Councils) (Plymouth) (Torbay)
Representing Other Employers	Councillor Ray Bloxham	(Cranbrook Town Council)
Representing the Contributors	Michael Daniell * Lorraine Parker Delaz-Ajete *	(UNISON) (GMB)
Representing the Beneficiaries	Roberto Franceschini *	(UNISON)

* The Fund Member representatives have one joint vote between them

Adviser Anthony Fletcher (MJ Hudson Allenbridge)

Devon Pension Board (at 31 March 2023)

Representing Fund Employers	Councillor Colin Slade Councillor Sara Randall Johnson Carl Hearn Dominic Walshe	(Devon County Council) (Chairman) (Devon County Council) (Tavistock Town Council) (PAPH Plymouth Learning Partnership)
Representing Fund Members	Julie Bailey Andrew Bowman Paul Phillips Colin Shipp	
Independent Member	Robert Jeanes	

County Council Officers	Donna Manson Angie Sinclair Mark Gayler Martin Oram Rachel Lamb	Chief Executive Director of Finance and Public Value Head of Investments Head of Financial Systems & Processes Head of Peninsula Pensions
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Asset Pool	Brunel Pension Partnership 101 Victoria Street Bristol. BS1 6PU
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 summary annual report can be found on-line at the Devon County Council web site at:

<https://www.devonpensionfund.org.uk/fund-policies/important-documents/>

Requests for information about the accounts or investments should be made in writing to:

Mark Gayler, Head of Investments

Devon County Council, County Hall, Exeter, EX2 4QD.

2. Basis of Preparation

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 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. Contribution rates for 2022/23 were set by the statutory triennial actuarial valuation of the Fund undertaken in 2019, 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.

The accounts have been prepared on a going concern basis.

3. Accounting Policies

The Statement of Accounts summarises the fund's transactions for the 2022/23 financial year and its position at year-end as at 31st March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Code requires disclosure of any accounting standards issued but not yet adopted. CIPFA had deferred the implementation of IFRS 16 (Leases) until 2022/23 but it has further deferred the implementation of IFRS 16 so that it will apply from 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption should an authority consider that it is able to do so as of 1 April 2022 or 2023. Implementation of IFRS 16 is not expected to have a material impact on the Pension Fund because it does not hold any assets as a lessee.

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, other employers and three fund member representatives (one voting and two observers), control the investments with advice from specialists. Employing body details are shown in Note 1.

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 basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

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 accrual's 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 Notes 11 and 12.

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 International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020).
 - 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.

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 24).

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 29th June 2023.

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.

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.

Taxation

Value Added Tax (VAT)

Income and expenditure exclude any amounts relating to VAT except to the extent that it is irrecoverable. The Fund is reimbursed by HM 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 HM 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.

4. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 3 it has not been necessary to make any critical judgements about complex transactions or those involving uncertainty about future events.

5. 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 considering 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.	For every 1% increase in Market Value the value of the Fund will increase by £53 million with a decrease having the opposite effect.
Unlisted assets, specifically level 3 private infrastructure and debt funds (valued at £673.2m)	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	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 5% fall in the valuations included in the accounts for these portfolios would result in a reduction of £33.7m in total Fund assets.
Actuarial present value of promised retirement benefits	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: <ul style="list-style-type: none"> • a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £89.3 million • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £7.1 million • a one-year increase in assumed life expectancy would increase the liability by approximately £215 million

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 assessing fair value is explained in Note 20. 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.

6. Events After the Reporting Date

There have been no events since 31 March 2023, and up to the date when these accounts were authorised on 29th June 2023 that require any adjustment.

7. Contributions receivable

By category

2021/22		2022/23
£'000		£'000
<u>(45,260)</u>	Employees' normal contributions	<u>(49,905)</u>
	Employers' contributions:	
(120,663)	Employers' normal contributions	(131,956)
<u>(7,509)</u>	Employers' deficit recovery contributions	<u>(9,289)</u>
(128,172)	Total employers' contributions	(141,245)
<u>(173,432)</u>	Total contributions receivable	<u>(191,150)</u>

2021/22		2022/23
£'000		£'000
(44,138)	Administering Authority	(49,591)
(118,091)	Scheduled bodies	(129,624)
(2,452)	Admitted bodies	(2,564)
(2,717)	Community admission body	(3,757)
(4,625)	Transferee admission body	(3,986)
<u>(1,409)</u>	Resolution body	<u>(1,628)</u>
<u>(173,432)</u>		<u>(191,150)</u>

8. Transfers In From Other Pension Funds

2021/22		2022/23
£'000		£'000
(606)	Group transfers	-
(12,718)	Individual transfers	(13,253)
<u>(13,324)</u>		<u>(13,253)</u>

9. Benefits Payable

By category

2021/22		2022/23
£'000		£'000
168,391	Pensions	176,799
29,018	Commutation and lump sum retirement benefits	27,720
3,623	Lump sum death benefits	3,826
<u>201,032</u>		<u>208,345</u>

By type of employer

2021/22		2022/23
£'000		£'000
70,268	Administering Authority	72,666
118,792	Scheduled bodies	123,177
1,637	Admitted bodies	1,511
4,920	Community admission body	5,514
4,840	Transferee admission body	4,654
575	Resolution body	823
<u>201,032</u>		<u>208,345</u>

10. Payments To And On Account of Leavers

2021/22		2022/23
£'000		£'000
601	Refunds to members leaving service	1,003
(5)	Payments for members joining state scheme	(21)
16,347	Group transfers	-
9,690	Individual transfers	9,139
26,633		10,121

11. Management Expenses

2021/22		2022/23
£'000		£'000
2,429	Administrative costs	2,602
2,429		2,602
	Investment management expenses	
19,729	Management fees (a)	21,388
3,617	Performance fees (a)	1,725
62	Custody fees	30
1,794	Transaction costs (b)	1,980
(2)	Stock Lending Income & Commission Recapture	-
(19)	Other Investment management expenses	27
25,181		25,150
	Oversight and governance costs	
31	Audit Fees (c)	47
812	Other Oversight and governance costs	836
843		883
28,453		28,635

- a) Most 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.
- 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 16).
- c) The proposed total audit fee due to Grant Thornton for 2022/23 is £36,000, but this will be confirmed in the Annual Audit Plan presented to the Audit

Committee on 25th September 2023. Audits costs recognised in 2022/23 include adjusted scale fees £24,000, PSAA approved 2020/21 variation £13,000 and minor charges totalling £10,000.

In addition, external auditors of the other local authorities who are admitted bodies of the pension scheme have requested letters of assurance from the Pension Fund auditors. The fee for this audit work will be £26,400 for 2022/23 to reflect additional work resulting from the Triennial valuation exercise. These fees are recharged by the Pension Fund to those admitted local authority members.

12. Investment Management Fees

2022/23

	Total £'000	Management fees £'000	Performance related fees £'000	Transaction Costs £'000
Bonds	-	-	-	-
Equities	-	-	-	-
Pooled Investments *	21,488	17,783	1,725	1,980
Pooled Property Investments	3,605	3,605	-	-
Cash and FX Contracts	-	-	-	-
	25,093	21,388	1,725	1,980
Custody Fees	30			
Stock Lending Income and Commission Recapture	-			
Class Action Proceeds	-			
Other Investment Management Expenses	27			
	25,150			

* Included £1.511 million charged to the Fund by the Brunel Pension Partnership.

2021/22

	Total £'000	Management fees £'000	Performance related fees £'000	Transaction Costs £'000
Bonds	88	88	-	-
Equities	59	-	-	59
Pooled Investments *	21,574	16,717	3,617	1,240
Pooled Property Investments	3,408	2,924	-	484
Cash and FX Contracts	11	-	-	11
	25,140	19,729	3,617	1,794
Custody Fees	62			
Stock Lending Income and Commission Recapture	(2)			
Class Action Proceeds	(43)			
Other Investment Management Expenses	24			
	25,181			

* Included £1.192 million charged to the Fund by the Brunel Pension Partnership.

13. Investment Income

	2021/22 £'000	2022/23 £'000
Income from Bonds		
U.K. Public Sector Bonds		
(47) Overseas Government Bonds		-
(784) Overseas Government Index Linked Bonds		(280)
(570) UK Corporate Bonds		38
(1,116) Overseas Corporate Bonds		112
Income from Equities (Listed)		
- U.K.		-
(44) Overseas		(122)
(15,974) Pooled Investments - Other		(22,457)
(14,989) Pooled Property Investments		(15,739)
(86) Interest on Cash and Short Term Deposits		(1,105)
	(33,610)	(39,553)
Total before taxes		

14. Investments

2021/22 £'000		2022/23 £'000
	Pooled Funds	
722,948	Fixed Interest Funds	982,074
3,199,500	Global Equity	2,757,217
324,789	Infrastructure Funds	476,663
108,455	Private Debt Funds	151,511
25,448	Private Equity Funds	45,019
502,440	Diversified Growth Funds	368,476
4,883,580		4,780,960
	Other Investments	
453,953	Pooled Property Investments	455,507
	Derivatives:	
-	- Forward Foreign Exchange	2,063
453,953		457,570
	Cash Deposits:	
13,908	Foreign Currency	1,478
8,457	Short Term Deposits	57,337
53,680	Cash & Bank Deposits	3,550
679	Investment Income Due	642
68	Amounts Receivable For Sales	-
76,792		63,007
5,414,325	Total Investment Assets	5,301,537
	Long-term Investments	
838	Shares in Brunel Pool	707
	Investment Liabilities	
	Derivatives:	
(2,303)	- Forward Foreign Exchange	-
(11,000)	Amounts Receivable For Sales	-
(13,303)	Total Investment Liabilities	-
5,401,860	Total Investments	5,302,244

15. Investment Management Arrangements

The Pension Fund is currently managed by the Brunel Pension Partnership Ltd. and the in-house Investment Team in the following proportions:

31 March 2022					31 March 2023	
£'000	%	Manager	Mandate	£'000	%	
Investments managed by the Brunel Pension Partnership Asset Pool:						
1,709,091	31.6	Brunel Pension Partnership Ltd	Passive Equities	1,412,644	26.5	
295,699	5.5	Brunel Pension Partnership Ltd	Global High Alpha Equities	296,954	5.6	
289,118	5.4	Brunel Pension Partnership Ltd	Global Small Cap Equities	280,945	5.3	
249,457	4.6	Brunel Pension Partnership Ltd	Emerging Market Equities	236,625	4.5	
258,166	4.8	Brunel Pension Partnership Ltd	Sustainable Equities	520,825	9.8	
391,135	7.2	Brunel Pension Partnership Ltd	Low Volatility Equities	-	0.0	
330,866	6.1	Brunel Pension Partnership Ltd	Sterling Corporate Bonds	347,525	6.6	
392,082	7.3	Brunel Pension Partnership Ltd	Multi-Asset Credit	634,549	12.0	
502,440	9.3	Brunel Pension Partnership Ltd	Diversifying Returns Fund	368,476	7.0	
508,227	9.4	Brunel Pension Partnership Ltd	Property	467,941	8.8	
186,296	3.4	Brunel Pension Partnership Ltd	Infrastructure	342,171	6.5	
25,448	0.5	Brunel Pension Partnership Ltd	Private Equity	45,019	0.8	
17,434	0.3	Brunel Pension Partnership Ltd	Private Debt	62,257	1.2	
5,155,459	95.4			5,015,931	94.6	
Investments managed outside the Brunel Pension Partnership Asset Pool:						
138,838	2.6	DCC Investment Team	Infrastructure	134,846	2.5	
91,022	1.7	DCC Investment Team	Private Debt	89,255	1.7	
16,541	0.3	DCC Investment Team	Cash	62,212	1.2	
246,401	4.6			286,313	5.4	
5,401,860	100			5,302,244	100	

16. 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 2022	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
Bonds					
U.K. Public Sector Bonds	-	-	-	-	-
Overseas Government Bonds	-	-	-	-	-
UK Corporate Bonds	-	-	56	(56)	-
Overseas Corporate Bonds	-	-	-	-	-
Equities (Listed)					
U.K.					
Overseas	-	-	-	-	-
Pooled Investments	4,883,580	1,228,661	(1,293,761)	(37,520)	4,780,960
Pooled Property Investments	453,953	90,632	(27,309)	(61,769)	455,507
Derivative Contracts					
Futures	-	-	-	-	-
Forward Currency Contracts	(2,303)	8,661	(7,874)	3,579	2,063
Foreign Currency	13,908	82,128	(94,852)	294	1,478
Amount Receivable for Sale of Investments	68	-	(68)	-	-
Amounts Payable for Purchase of Investments	(11,000)	-	11,000	-	-
	5,338,206	1,410,082	(1,412,808)	(95,472)	5,240,008
Short Term Deposits	8,457				57,337
Cash & Bank Deposits	53,680				3,550
Long Term Investments	838			(131)	707
Investment Income Due	679				642
Net Assets of the Fund at 31 March	5,401,860			(95,603)	5,302,244

	Value at 31 March 2021	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
Bonds					
U.K. Public Sector Bonds	11,144	61,114	(72,300)	42	-
Overseas Government Bonds	160,893	181,010	(341,279)	(624)	-
UK Corporate Bonds	4,048	189,494	(195,126)	1,584	-
Overseas Corporate Bonds	115,139	321,190	(438,983)	2,654	-
Equities (Listed)					
U.K.					
Overseas	-	4,922	(4,852)	(70)	-
Overseas	-	90,388	(89,109)	(1,279)	-
Pooled Investments	4,296,164	3,229,175	(2,958,829)	317,070	4,883,580
Pooled Property Investments	404,962	42,486	(59,020)	65,525	453,953
Derivative Contracts					
Futures	-	1,609	(412)	(1,197)	-
Forward Currency Contracts	4,960	17,036	(21,829)	(2,470)	(2,303)
Foreign Currency	11,509	117,296	(114,362)	(535)	13,908
Amount Receivable for Sale of Investments	-	68	-	-	68
Amounts Payable for Purchase of Investments	(2,714)	-	(8,286)	-	(11,000)
	5,006,105	4,255,788	(4,304,387)	380,700	5,338,206
Short Term Deposits	19,011				8,457
Cash & Bank Deposits	27,220				53,680
Long Term Investments	768			70	838
Investment Income Due	3,191				679
Net Assets of the Fund at 31 March	5,056,295			380,770	5,401,860

17. Fund Investments over 5% of total fund value

	Value at 31 March 2023 £'000	% of Total Fund Value %
Brunel Active Global Sustainable Equity Fund	520,825	9.8%
LGIM Paris-Aligned Developed Equity Index Fund	480,348	9.1%
LGIM World Developed Equity Index (Currency Hedged) Fund	420,694	7.9%
Neuberger Berman Multi-Asset Credit Fund	377,870	7.1%
LGIM UK Climate Transition Equity Index Fund	373,175	7.0%
Brunel Diversifying Returns Fund	368,476	7.0%
Royal London Mutual Assurance Sterling Corporate Bond Fund	347,525	6.6%
Brunel Active Global High Alpha Equity Fund	296,954	5.6%
Brunel Active Global Smaller Companies Equity Fund	280,945	5.3%

	Value at 31 March 2022 £'000	% of Total Fund Value %
Brunel Diversifying Returns Fund	502,440	9.3%
LGIM Paris-Aligned Developed Equity Index Fund	477,241	8.8%
LGIM UK Climate Transition Equity Index Fund	459,026	8.5%
Brunel Active Global Low Volatility Equity Fund	391,135	7.2%
LGIM World Developed Equity Index Fund	391,037	7.2%
LGIM World Developed Equity Index (Currency Hedged) Fund	381,788	7.1%
Royal London Mutual Assurance Sterling Corporate Bond Fund	330,866	6.1%
Brunel Active Global High Alpha Equity Fund	295,699	5.5%
Brunel Active Global Smaller Companies Equity Fund	289,118	5.3%

18. 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 future positions to match current assets that are already held in the portfolio without disturbing the underlying assets.

19. 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 31st March.

As at 31 March 2023

	Assessed valuation range (+/-) %	Value at 31 March 2023 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
Pooled Property Investments	3.52%	12,831	13,283	12,379
Pooled Investments				
Unlisted Infrastructure	4.29%	476,662	497,088	456,236
Private Equity	4.29%	45,018	46,947	43,089
Private Debt	4.29%	151,515	158,008	145,022
Long Term Investments	14.65%	707	811	603
		686,733	716,137	657,329

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 22) produce different price results.

As at 31 March 2022

	Assessed valuation range (+/-) %	Value at 31 March 2022 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
Pooled Property Investments	3.52%	3,871	4,007	3,735
Pooled Investments				
Unlisted Infrastructure	4.29%	324,788	338,706	310,870
Private Equity	4.29%	42,882	44,720	41,044
Private Debt	4.29%	91,023	94,923	87,123
Long Term Investments	14.65%	838	961	715
		463,402	483,317	443,487

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 unlisted infrastructure, private equity and private debt funds listed in the table below 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:

	2021/22 £'000	2022/23 £'000
Pooled Property Investments		
PGIM UK Affordable Housing Fund	133	260
Unlisted Infrastructure		
Archmore (UBS) International Infrastructure Fund LLP	(2,825)	75
Aviva Ground Rents Fund	38	(1,518)
Aviva Infrastructure Income Fund	958	(465)
Capital Dynamics Clean Energy Fund VII A	2,413	(1,288)
Capital Dynamics Clean Energy Fund VIII	210	1,599
First Sentier Infrastructure Fund	6,224	3,775
Hermes GPE Infrastructure Fund LLP	3,852	3,482
NTR Renewable Energy Fund II	191	1,204
Stepstone Brunel I Infrastructure Fund	1,341	11,100
Stepstone Brunel II Generalist Infra Fund	(72)	10,886
Stepstone Brunel II Renewables Infra Fund	645	9,494
Vauban Core Infrastructure Fund II	482	991
Private Equity		
Crown Global Secondaries V PE Fund	1,285	1,095
Alpinvest Co-Investment Fund VIII	398	(226)
Montana Capital-Partners Fund	612	415
New Mountain Fund 06	496	463
Insight Partners Fund XII	189	(811)
Insight Partners Fund X	1,424	(1,656)
Genstar X Opportunities Fund	50	18
Genstar X Fund	89	96
Inflexion Buyout Fund VI	-	320
PAI Parnters Fund VIII	-	(180)
J Star Fund No.5	-	(6)
Atomico Venture Fund 06	-	(99)
Summa Equity Fund III	(34)	(325)
Private Debt		
Arcmont Senior Loan fund I	1,872	(815)
Golub Capital Partners International Fund 11	5,736	3,233
Aksia Brunel Private Debt Fund	245	(1,415)
Blackrock European Mid Market Fund III	-	427
Long Term Investments		
Brunel Pension Partnership	70	(131)
	<u>26,022</u>	<u>39,998</u>

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 2023

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Long Term Investments	-	-	707	707
Investment Assets				
Pooled investments	-	4,107,766	673,194	4,780,960
Pooled property investments	-	442,675	12,832	455,507
Derivative Assets				
Forward Currency Contracts	-	2,063	-	2,063
Cash Deposits				
Foreign Currency	1,478	-	-	1,478
Short Term Deposits	57,337	-	-	57,337
Cash & Bank Deposits	3,550	-	-	3,550
Investment income due	-	-	-	-
Investment Liabilities				
Derivatives	-	-	-	-
Forward Currency Contracts	-	-	-	-
Amounts payable for purchases	-	-	-	-
Assets and Liabilities				
Current Assets	-	18,143	-	18,143
Current Liabilities	-	(6,914)	-	(6,914)
Net Assets of the Fund at 31 March 2023	62,365	4,563,733	686,733	5,312,831

At 31 March 2022

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Long Term Investments	-	-	838	838
Investment Assets				
Pooled investments	-	4,424,887	458,693	4,883,580
Pooled property investments	-	450,082	3,871	453,953
Derivative Assets				
Forward Currency Contracts	-	-	-	-
Cash Deposits				
Foreign Currency	13,908	-	-	13,908
Short Term Deposits	8,457	-	-	8,457
Cash & Bank Deposits	53,680	-	-	53,680
Investment income due	679	-	-	679
Investment Liabilities				
Derivatives	-	-	-	-
Forward Currency Contracts	-	(2,303)	-	(2,303)
Amounts payable for purchases	(11,000)	-	-	(11,000)
Assets and Liabilities				
Current Assets	-	18,350	-	18,350
Current Liabilities	-	(8,228)	-	(8,228)
Net Assets of the Fund at 31 March 2022	65,792	4,882,788	463,402	5,411,982

Reconciliation of Fair Value Measurements within Level 3

At 31 March 2023	Value at 31 March 2022	Transfers into Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Value at 31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Pooled Property Investments	3,871	-	9,326	(626)	224	36	12,831
<u>Pooled Investments</u>							
Unlisted Infrastructure	324,788	-	145,056	(32,517)	33,522	5,813	476,662
Private Equity	42,882	-	3,673	(641)	(941)	45	45,018
Private Debt	91,023	-	67,843	(8,781)	1,430	-	151,515
Long Term Investments	838	-	-	-	(131)	-	707
	463,402	-	225,898	(42,565)	34,104	5,894	686,733

At 31 March 2022	Value at 31 March 2021	Transfers into Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Value at 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Pooled Property Investments	50	-	3,709	(21)	133	-	3,871
<u>Pooled Investments</u>							
Unlisted Infrastructure	194,950	-	135,411	(19,030)	3,266	10,191	324,788
Private Equity	1,332	-	37,590	(794)	3,961	793	42,882
Private Debt	107,613	-	5,353	(29,551)	3,741	3,867	91,023
Long Term Investments	768	-	-	-	70	-	838
	215,452	-	182,063	(49,396)	11,171	14,851	463,402

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.

20. 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
2021/22			2022/23		
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
-	-	-	-	-	-
4,883,580	-	-	4,780,960	-	-
453,953	-	-	455,507	-	-
-	-	-	2,063	-	-
-	76,045	-	-	62,365	-
838	-	-	707	-	-
747	-	-	642	-	-
-	18,350	-	-	17,501	-
5,339,118	94,395	-	5,239,879	79,866	-
Financial Liabilities					
(2,303)	-	-	-	-	-
-	-	(11,000)	-	-	-
-	-	(8,228)	-	-	(6,913)
(2,303)	-	(19,228)	-	-	(6,913)
5,336,815	94,395	(19,228)	5,239,879	79,866	(6,913)

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 2022	31 March 2023
£'000	£'000
Financial assets	
422,855 Fair value through profit and loss	(59,421)
(449) Amortised Cost	759
422,406	(58,662)
Financial liabilities	
2,233 Fair value through profit and loss	2,303
- Amortised Cost	-
2,233	2,303

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit/(loss) figures between 2021/22 and 2022/23 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

21. 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, the majority 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 types of investment assets 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 because 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 2021/22	Percentage Change 2022/23
Equities	14.65%	12.92%
Bonds	6.14%	6.79%
Cash	1.07%	1.58%
Property	3.52%	5.38%
Infrastructure	4.29%	4.23%
Pooled Multi Asset	9.56%	5.38%

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 31st March would have increased or decreased the net assets available to pay benefits by the amount shown below:

As at 31 March 2023

Asset Class	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Equities	2,757,924	12.92%	356,283	(356,283)
Bonds	982,074	6.79%	66,699	(66,699)
Cash	65,070	1.58%	1,021	(1,021)
Property	455,507	5.38%	24,520	(24,520)
Infrastructure & Private Debt	673,193	4.23%	28,453	(28,453)
Pooled Multi Asset	368,476	5.38%	19,828	(19,828)
Total	5,302,244		496,804	(496,804)

As at 31 March 2022

Asset Class	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Equities	3,200,338	14.65%	468,898	(468,898)
Bonds	722,948	6.14%	44,382	(44,382)
Cash	63,489	1.07%	681	(681)
Property	453,953	3.52%	15,992	(15,992)
Infrastructure	458,692	4.29%	19,656	(19,656)
Pooled Multi Asset	502,440	9.56%	48,020	(48,020)
Total	5,401,860		597,629	(597,629)

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 31st March 2022 and 2023 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	As at 31 March 2022	As at 31 March 2023
	£'000	£'000
Cash and cash equivalents	53,680	4,386
Short term Deposits	8,457	57,337
Fixed Interest	722,948	982,074
Total	785,085	1,043,797

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 Brunel Pension Partnership in relation to the Sterling Corporate Bonds and Multi-Asset Credit portfolios. 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 2023	Carrying	Modified	Effect on Asset Values	
	value at 31	Duration of	+1%	-1%
	March 2023	Portfolio	£'000	£'000
	£'000	£'000	£'000	£'000
Cash and cash equivalents	4,386	-	-	-
Short term Deposits	57,337	-	-	-
Fixed Interest	982,074	3.57%	(35,019)	35,019
Total	1,043,797	3.57%	(35,019)	35,019

As at 31 March 2022	Carrying	Modified	Effect on Asset Values	
	value at 31	Duration of	+1%	-1%
	March 2022	Portfolio	£'000	£'000
	£'000	£'000	£'000	£'000
Cash and cash equivalents	53,680	-	-	-
Short term Deposits	8,457	-	-	-
Fixed Interest	722,948	4.53%	(32,750)	32,750
Total	785,085	4.53%	(32,750)	32,750

As at 31 March 2023	Amount	Effect on Income Values	
	receivable in	+1%	-1%
	year ending	£'000	£'000
	31 March	£'000	£'000
	2023	£'000	£'000
Cash and cash equivalents	1,105	11	(11)
Short term Deposits	-	-	-
Fixed Interest	130	-	-
Total	1,235	11	(11)

As at 31 March 2022	Amount	Effect on Income Values	
	receivable in	+1%	-1%
	year ending	£'000	£'000
	31 March	£'000 <td>£'000</td>	£'000
	2022	£'000 <td>£'000</td>	£'000
Cash and cash equivalents	86	1	(1)
Short term Deposits	0	-	-
Fixed Interest	2,516	-	-
Total	2,602	1	(1)

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:

- The Fund's exposure at 31st March 2023 to currency exchange rate movements on its investments based on movements over the previous 3 years.
- 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 2023 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 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 31st March 2022.

Currency Risk

As at 31 March 2023	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	46,838	672	47,510	7.66%	3,639	(3,639)
Brazilian Real	33,002	-	33,002	15.21%	5,020	(5,020)
Canadian Dollar	6,298	-	6,298	6.77%	426	(426)
Chilean Peso	6,968	-	6,968	15.77%	1,099	(1,099)
Chinese Yuan	(2,388)	-	(2,388)	8.93%	(213)	213
Colombian Peso	23,782	-	23,782	11.72%	2,786	(2,786)
Danish Krona	37,258	-	37,258	6.44%	2,399	(2,399)
Euro	296,504	314	296,818	6.32%	18,759	(18,759)
Hong Kong Dollar	73,894	-	73,894	8.55%	6,318	(6,318)
Hungarian Forint	2,676	-	2,676	12.65%	339	(339)
Indian Rupee	17,830	-	17,830	7.72%	1,376	(1,376)
Indonesian Rupiah	15,026	-	15,026	8.22%	1,235	(1,235)
Israeli Shekel	(296)	-	(296)	8.86%	(26)	26
Japanese Yen	157,574	-	157,574	9.05%	14,260	(14,260)
Kenyan Shilling	608	-	608	6.46%	39	(39)
Malaysian Ringgit	750	-	750	7.84%	59	(59)
Mexican Peso	13,118	-	13,118	11.29%	1,481	(1,481)
New Taiwan Dollar	30,590	-	30,590	7.78%	2,380	(2,380)
New Turkish Lira	624	-	624	26.27%	164	(164)
New Zealand Dollar	(27,721)	-	(27,721)	7.11%	(1,971)	1,971
Nigerian Naira	1,193	-	1,193	6.46%	77	(77)
Norwegian Krone	40,103	-	40,103	9.50%	3,810	(3,810)
Philippines Peso	2,028	-	2,028	6.74%	137	(137)
Polish Zloty New	(1,919)	-	(1,919)	8.84%	(170)	170
Qatari Rial	271	-	271	9.09%	25	(25)
Romanian Leu	445	-	445	6.46%	29	(29)
Saudi Arabia Riyal	870	-	870	6.46%	56	(56)
Singapore Dollars	5,000	-	5,000	6.31%	316	(316)
South African Rand	11,599	-	11,599	12.72%	1,475	(1,475)
South Korean Won	15,902	-	15,902	7.46%	1,186	(1,186)
Swedish Krona	18,493	-	18,493	7.46%	1,380	(1,380)
Swiss Franc	48,959	-	48,959	7.19%	3,520	(3,520)
Thailand Baht	4,616	-	4,616	7.65%	353	(353)
UAE Dirham	1,906	-	1,906	6.46%	123	(123)
US Dollars	1,282,322	1,076	1,283,398	8.63%	110,757	(110,757)
Vietnamese Dong	730	-	730	6.46%	47	(47)
	2,165,453	2,062	2,167,515		182,690	(182,690)

Currency Risk

As at 31 March 2022	Assets	FX	Total	Percentage Change	Change for the year in net assets available to pay benefits	
	held at fair value	Contracts			+ 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Australian Dollar	66,173	(900)	65,273	7.78%	5,078	(5,078)
Brazilian Real	43,957	-	43,957	14.48%	6,365	(6,365)
Canadian Dollar	40,289	-	40,289	6.54%	2,635	(2,635)
Chilean Peso	26,299	-	26,299	14.71%	3,869	(3,869)
Chinese Yuan	10,308	-	10,308	8.19%	844	(844)
Colombian Peso	46,580	-	46,580	12.93%	6,023	(6,023)
Czech Republic Koruna	(5,262)	-	(5,262)	7.59%	(399)	399
Danish Krona	20,908	-	20,908	6.94%	1,451	(1,451)
Euro	337,901	(327)	337,574	6.67%	22,516	(22,516)
Hong Kong Dollar	70,719	-	70,719	7.65%	5,410	(5,410)
Hungarian Forint	1,054	-	1,054	10.05%	106	(106)
Indian Rupee	10,709	-	10,709	7.47%	800	(800)
Indonesian Rupiah	11,154	-	11,154	7.92%	883	(883)
Israeli Shekel	(9,377)	-	(9,377)	9.00%	(844)	844
Japanese Yen	219,609	-	219,609	8.25%	18,118	(18,118)
Kenyan Shilling	966	-	966	5.75%	56	(56)
Malaysian Ringgit	17,117	-	17,117	7.04%	1,205	(1,205)
Mexican Peso	24,667	-	24,667	12.07%	2,977	(2,977)
New Taiwan Dollar	21,896	-	21,896	7.43%	1,627	(1,627)
New Turkish Lira	1,433	-	1,433	26.30%	377	(377)
New Zealand Dollar	(50,324)	-	(50,324)	6.90%	(3,472)	3,472
Nigerian Naira	1,290	-	1,290	5.75%	74	(74)
Norwegian Krone	65,393	-	65,393	9.81%	6,415	(6,415)
Philippines Peso	(13,499)	-	(13,499)	7.82%	(1,055)	1,055
Polish Zloty New	835	-	835	8.24%	69	(69)
Qatari Rial	2	-	2	8.11%	-	-
Romanian Leu	492	-	492	5.75%	28	(28)
Saudi Arabia Riyal	2,270	-	2,270	5.75%	131	(131)
Singapore Dollars	18,380	-	18,380	5.95%	1,094	(1,094)
South Korean Won	35,223	-	35,223	7.04%	2,480	(2,480)
Swedish Krona	32,571	-	32,571	7.61%	2,479	(2,479)
Swiss Franc	8,580	-	8,580	7.17%	615	(615)
Thailand Baht	(1,569)	-	(1,569)	7.53%	(118)	118
UAE Dirham	731	-	731	5.75%	42	(42)
US Dollars	1,465,859	(1,076)	1,464,783	7.69%	112,642	(112,642)
Vietnamese Dong	708	-	708	5.75%	41	(41)
	2,524,042	(2,303)	2,521,739		200,562	(200,562)

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 2022 £'000	As at 31 March 2023 £'000
Fixed Interest	-	
Pooled investments	4,883,580	4,780,960
Pooled property investments	453,953	455,507
Derivatives (net)	(2,303)	2,063
Foreign currency	13,908	1,478
Short term deposits	8,457	57,337
Cash and cash equivalents	53,680	3,550
Settlements and dividends receivable	747	642
Long Term Investment	768	707
Total of investments held	5,412,790	5,302,244

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 31st 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 31st March 2023 was £57.337 million (31st March 2022 £8.457 million). This was held with the following institutions:

Credit Rating at 31 March 2023	Fitch	Moody's	Standard & Poor's	Balances as at 31 March 2022 £'000	Balances as at 31 March 2023 £'000
Banks and Building Societies					
Australia and New Zealand Bank	A+	Aa3	AA-	-	10,000
Handelsbanken	AA	Aa2	AA-	8,457	-
Money Market Funds					
Blackrock MMF	AAA	Aaa	AAA	-	30,000
Aberdeen Standard MMF	AAA	Aaa	AAA	-	12,337
Local Authorities					
Torfaen County Borough Council	-	-	-	-	5,000
				8,457	57,337

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.

22. 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 2022. The next valuation will take place as at 31 March 2025.

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 secondary contributions agreed with the administering authority have been set at this valuation to restore the Fund to a funding position of 100% by no later than 2038. 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 2022 actuarial valuation, the fund was assessed as 98.4% funded (91% at the March 2019 valuation). This corresponded to a deficit of £88.6 million (2019 valuation £399 million) at that time.

The primary rate (previously known as the future service rate) over the three-year period ending 31 March 2025 is 19.2% of payroll. The secondary rate (the deficit recovery rate) totals £22.052 million in 2022/23 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

	2022 valuation	2019 valuation
Investment return (discount rate)	4.7%	5.1%
Salary Increases	3.9%	3.6%
Pension increases in line with CPI	2.9%	2.6%

Mortality assumptions

Life expectancy from age 65 (years):	31/03/2023	31/03/2022
Retiring Today		
Males	21.8	21.7
Females	22.9	22.9
Retiring in 20 years		
Males	23.1	23.0
Females	24.4	24.3

Historic mortality assumptions

Life expectancy for the year ended 31 March 2023 are based on S3PA tables with a multiplier of 100% for males and 120% for females. The allowances for future life expectancy are based on the 2021 CMI Model allowing for a long-term rate of improvement of 1.25% per annum, smoothing parameter of 7.0 and an initial addition to improvements of 0.0 % per annum.

Contribution Rates

Scheme members (employees) paid variable percentages of their total pensionable pay into the fund as set out below.

Band	Actual pensionable pay for an employment 2021/22	Member contribution rate for that employment	Actual pensionable pay for an employment 2022/23	Member contribution rate for that employment
1	£0 to £14,600	5.50%	£0 to £15,000	5.50%
2	£14,601 to £22,900	5.80%	£15,001 to £23,600	5.80%
3	£22,901 to £37,200	6.50%	£23,601 to £38,300	6.50%
4	£37,201 to £47,100	6.80%	£38,301 to £48,500	6.80%
5	£47,101 to £65,900	8.50%	£48,501 to £67,900	8.50%
6	£65,901 to £93,400	9.90%	£67,901 to £96,200	9.90%
7	£93,401 to £110,000	10.50%	£96,201 to £113,400	10.50%
8	£110,001 to £165,000	11.40%	£113,401 to £170,100	11.40%
9	More than £165,001	12.50%	More than £170,101	12.50%

23. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £5,631 million as at 31 March 2023 (£8,178 million as at 31 March 2022). The Funded Obligation consists of £5,563 million (£8,054 million as at 31 March 2022) in respect of Vested Obligation and £68 million (£124 million as at 31 March 2022), of Non-Vested Obligation. The Pension Fund holds assets, as disclosed in the Net Asset Statement, which offset these projected total liabilities.

2021/22		2022/23	
£'000		£'000	
(8,178,400)	Present value of the defined benefit obligation	(5,631,456)	
5,411,982	Fair value of Fund assets (bid value)	5,301,491	
(2,766,418)	Net liability	(329,965)	

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 2023, the actuary has rolled forward the value of Fund's liabilities calculated for the latest full funding valuation as at 31 March 2019, using financial assumptions compliant 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 value of liabilities as at 31 March 2023 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2023 should not introduce any material distortions in the results provided that the actual experience of the employer and 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.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers.

We have allowed for actual pension increases up to and including the 2023 Pension Increase Order. This is reflected in the Experience loss/(gain) on defined benefit obligation figure in the results. We have also allowed for actual CPI inflation experienced from September 2022 to March 2023.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 March 2023 to be a loss £656.885 million (31 March 2022 a gain of £470.048 million).

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 2022.

The post-retirement mortality tables adopted are the S3PA tables with a multiplier of 100% for males and 120% for females. These base tables are then projected using the CMI_2021 model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.0, an initial addition parameter of 0.0% p.a. and a 2020 weighting of 5%.

There was no further impact on the Funds liabilities in 2022/23 resulting from changed demographic assumptions.

The Actuary has also assumed that:

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations.
- 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 key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate (linked to high quality corporate bond yields) and the rate of future inflation. The derivation financial assumptions and possible outcomes are set with reference to market conditions at 31st March 2023.

Assumptions at:	Discount rate % p.a	Pension Increases % p.a	Salary Increases % p.a
31 March 2023	4.80	2.90	3.90
31 March 2022	2.60	3.25	4.25
31 March 2021	2.00	2.85	3.85

From an accounting perspective, current methodologies for deriving assumptions are regarded by our Actuary as appropriate given current market uncertainties and are based on the actual return earned by the fund assets over the accounting period without any estimation required.

24. 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.

2021/22		2022/23
£'000		£'000
	Current Assets	
	Debtors and Prepayments	
	Contributions Receivable	
12,258	Employers	10,874
	Current portion of non current assets	
-	(Employers contributions)	-
4,113	Employees	4,093
1,979	Other debtors	2,534
<u>18,350</u>		<u>17,501</u>
	Current Liabilities	
	Creditors and Receipts in Advance	
(3,329)	Devon County Council	(3,226)
(4,899)	Other creditors	(3,688)
<u>(8,228)</u>		<u>(6,914)</u>

25. 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.

2021/22		2022/23
£'000	Payments on behalf of:	£'000
7,172	Devon County Council	7,047
953	Plymouth City Council	867
534	Torbay Council	546
378	Teignbridge District Council	372
316	University Of Plymouth	329
237	Exeter City Council	235
222	North Devon District Council	221
185	South Hams District Council	188
178	Dorset, Devon and Cornwall Rehabilitation Service	155
81	Torridge District Council	81
410	Payments of less than £100,000 on behalf of other bodies	414
10,666	Total	10,455

26. Related Party Transactions

Devon County Council

The Devon Pension Fund is administered by Devon County Council. During the reporting period, the council incurred costs of £3.441 million (2021/22 £3.197 million) 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 £49.546 million to the fund in 2022/23 (2021/22 £44.035 million). In 2022/23 £4.156 million was owed to the fund (2021/22 £5.594 million) and £3.210 million was due from the fund (2021/22 £2.974 million).

Governance

The Investment and Pension Fund Committee is the decision-making body for the fund and Devon County Council nominates 6 of the 11 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:

- One voting member of the Investment & Pension Fund Committee receives pension benefits from the Fund.

- No senior officers responsible for the administration of the Fund have entered any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

Brunel Pension Partnership Ltd

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:

	2021/22	2022/23
	£'000	£'000
Income	-	-
Expenditure	1,357	1,511
Debtors	-	-
Creditors	-	-

27. Key Management personnel

The Key Management Personnel of the Fund are those persons with 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 Director of Finance and Public Value, the Deputy Director of Finance and Public Value, the Head of Investments, the Head of Financial Systems and Processes and members of the Investment and Investment Pension Fund Committee.

Key Management Personnel total remuneration payable is set out below:

	2021/22	2022/23
	£'000	£'000
211 Salary, Fees and Allowances	211	224
- Expenses Allowances	-	7
43 Pension contributions	43	44
	<u>254</u>	<u>275</u>

28. Contingent liabilities and contractual commitments

Contractual commitments

As at 31 March 2023 the Fund had outstanding capital commitments of £745 million (31 March 2022 - £524 million). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the infrastructure, private debt and private equity fund elements of the investment portfolio. The amounts “called” by these funds are irregular in terms of both size and timing from the date of the original commitment due to the nature of the investments.

31 March 2022			31 March 2023		
Total Commitment	Remaining Commitment		Total Commitment	Remaining Commitment	
£'000	£'000		£'000	£'000	
Infrastructure					
180,228	11,218	Pre-Brunel Investments	184,373	2,599	
484,197	298,684	Brunel Infrastructure Portfolio	584,540	264,540	
Private Debt					
146,963	28,484	Pre-Brunel Investments	150,658	24,981	
100,000	82,587	Brunel Private Debt Portfolio	280,000	217,580	
Private Equity					
125,000	103,077	Brunel Private Equity Portfolio	278,370	235,800	
1,036,388	524,050		1,477,941	745,500	

Contingent liability

A guarantee has been provided to the Brunel Pensions Partnership to meet an obligation for the pension reimbursement asset. Should Brunel Pensions Partnership fail to meet its obligation it will be assigned to the shareholders. As Devon Pension Fund is a shareholder, it will guarantee to pay 1/10th of the obligation. The risk of the guarantee being called upon is assessed as low. Consequently, there is no liability recognised in the Pension Fund’s net asset statement.

Statement of the Actuary for the year ended 31 March 2023

Introduction

The last full triennial valuation of the Devon Pension Fund (the Fund) was carried out as at 31 March 2022 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 2023.

Asset value and funding level

The results for the Fund at 31 March 2022 were as follows:

- The smoothed value of the Fund's assets as at 31 March 2022 used for valuation purposes was £5,346 million.
- The Fund had a funding level of 98% i.e. the assets were 98% 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 £88.6m.

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 19.2% 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 2023.

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 contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2022 are summarised below:

Assumptions	Assumptions used for the 2022 valuation
Financial assumptions	
Market date	31-Mar-22
CPI inflation	2.9% p.a.
Long-term salary increases	3.9% p.a.
Discount rate	4.7% 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 increases. 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	S3PA
Member mortality multiplier	100% / 120%
Dependant base tables	S3DA
Dependant mortality multiplier	100% / 105%
Projection model	CMI 2021
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7
Initial addition to improvements	0.0% p.a.

The mortality assumptions translate to life expectancies as follows:

Assumed life expectancies at age 65:	
Average life expectancy for current pensioners - men currently age 65	21.7 years
Average life expectancy for current pensioners - women currently age 65	22.9 years
Average life expectancy for future pensioners - men currently age 45	23.0 years
Average life expectancy for future pensioners - women currently age 45	24.3 years

Further details of the assumptions can be found in the relevant actuarial valuation report.

Updated position since the 2022 valuation

Assets

Returns over the year to 31 March 2023 have been lower than expected, particularly in the first quarter. As at 31 March 2023, the Fund assets were less than they were projected to be at the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2023, the real discount rate is estimated to be higher than at the 2022 valuation due to a reduction in the long term rate of inflation from 31 March 2023 onwards.

In addition, benefits were increased by 10.1% in line with the 2023 LGPS pension increase which is higher than the pension increase assumed at the previous valuation. However, this was anticipated at the 2022 valuation and built into the long-term inflation assumption. The projection for the future rate of long-term inflation from 31 March 2023 has reduced since the previous valuation in line with expectations.

The higher pension increase has been broadly offset by the higher real discount rate, however, the value of liabilities will have increased due to the accrual of new benefits and interest on the liabilities.

Overall position

On balance, we estimate that the funding position has reduced slightly when compared on a consistent basis to 31 March 2022.

However, the increase in the real discount rate since 31 March 2022 is likely to place a lower value on the cost of future accrual which results in a lower primary contribution rate. The impact on secondary contributions will vary by employer.

The next formal valuation will be carried out as at 31 March 2025 with new contribution rates set from 1 April 2026.

Graeme Muir FFA

Partner, Barnett Waddingham LLP

8th June 2023

Pension Fund Glossary

Actuarial Terms

Actuary

An actuary is an expert in statistics and its application to solving problems regarding financial predictions. Actuaries are particularly involved in the fields of life and general insurance, pension funds and the investment of the funds underlying those businesses although they are involved in other areas too.

Actuarial Valuation

A comparison of a scheme's assets with its Actuarial Liability, sometimes also including a calculation of the cost of accruing benefits (if any). Assumptions are used to determine the estimated value of benefits payable. A formal valuation of a Defined Benefits Pension Scheme is carried out at least every three years. This generally leads to agreement of the employers' contributions for the following three years.

AVC - Additional Voluntary Contribution

Contributions to an Occupational Pension Scheme over and above a member's normal contributions (if any), which the member may elect to pay to the scheme (if the scheme allows) to secure additional benefits.

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 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.

Bonds

A bond is a form of debt issued to raise capital. Bonds may be issued by companies, governments, and non-governmental organisations (for example the European Investment Bank or the International Monetary Fund (IMF)). Bonds issued by the British Government are known as Gilts.

CMI - Continuous Mortality Investigation

The CMI carries out research into Mortality and morbidity experience. The CMI was originally established by the Actuarial Profession to carry out industry-wide claims experience investigations in the field of life and health insurance. The CMI also took over research into the mortality of members of Self-Administered Pension Schemes (SAPS) in 2006.

Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute because of leaving employment or opting out of the pension scheme before state retirement age.

Deficit (Actuarial)

The amount by which the Actuarial Liability exceeds the value of assets at a specified date.

Deficit Recovery Contributions

Additional contributions, above the ongoing future service contributions, required to fund the Deficit in respect of a scheme's past service Liabilities.

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.

IAS19 – International Accounting Standard 19

The international accounting standard covering accounting for pension costs in companies' accounts.

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.

Liability (Actuarial)

The estimated value, using actuarial methods and assumptions, placed on the obligations of a pension scheme. These obligations include the present value of future pension instalments and contingent benefits and may include the expected value of future expenses.

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.

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.

Pensionable Salary

Earnings used to calculate pension contributions in a Defined Benefit Pension Scheme. A different name may also be used, such as Pensionable Earnings. The measure will vary from scheme to scheme and should be precisely defined in the scheme's Trust Deed and Rules.

Pensionable Service

Length of employment / scheme membership used to calculate pension benefits in a Defined Benefit Pension Scheme. The measure will vary from scheme to scheme and should be precisely defined in the scheme's Trust Deed and Rules. A different name may also be used.

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 several 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.

Promotional scale

This takes into consideration the possibility of promotion during an employee's working life.

Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

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.

Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

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.

Schedule of Contributions

A formal agreement between the Trustees of a Defined Benefit Pension Scheme and the employer, setting out how much the employer and employees will contribute to the scheme. The Scheme Actuary must certify that the Schedule of Contributions is adequate to meet the Statutory Funding Objective. The Trustees must monitor adherence to the schedule and report any material failures to the Pensions Regulator.

Solvency Test

An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

Standard Contribution Rate

The contribution rate (employer and employee) required to fund future accrual of benefits before any adjustment for Surplus or deficit in respect of past service.

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.

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 consider future salary increases.

Yield

The total expected rate of return on an investment. This may include both the income part of return such as Dividends and Coupon payments as well as capital gains / losses from price movements.

Annual Governance Statement 2022/23

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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, taxpayers 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.

Devon 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; and
- 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

The 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 2023 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 Finance Officer in Local Government (2010), enabling the Director of Finance and Public Value 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 five years there have been, via the Procedures Committee, numerous amendments to the Constitution. In the last 12 months Standing Orders were amended relating to the postponement of a meeting due to severe weather conditions or some other unforeseen circumstance; the scheme of delegation was amended to give power to the Proper Officer so that vacancies in office can be declared in the timely manner as anticipated by the legislation; the making and disclosure of Special Severance Payments.

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.

A cross-party working group from the Procedures Committee will commence a root and branch Governance Review over the next 12 months. The Council has faced significant challenges both externally and internally since the pandemic. The economic situation linked to the war in Ukraine and the Cost-of-Living crisis have impacted upon all stakeholders in Devon and the staff survey highlighted that many staff are also being impacted e.g. food poverty issues. The services the Council provide, and the context of delivery have significantly changed; equally staff are impacted by these contexts too. In summary the Council finds itself in a very different operating context and the need for a review of priorities is required.

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 again in 2021 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.

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 Cabinet Procedure Rules, contained within the Council's Constitution, prepared in accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, set out the procedure and publication requirements before key decisions are taken. The Cabinet Procedure Rules also permit

exceptions to these requirements in limited circumstances as set out in Rule 7 (General Exception) and Rule 8 (Special Urgency). 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. Rule 8, contain special urgency provisions that permit a decision to be taken where Rule 7 cannot be followed; for example where there is insufficient time to give the required notice period (28 days) before the meeting at which the matter is to be considered.

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 Cabinet 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 a vital role ensuring 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.

Following the publication of Scrutiny statutory guidance in 2019, Devon reviewed all of its Scrutiny approach and operating model. The learnings from this review and national best practice determined that it is the culture in which Scrutiny operates that determines success, not the specifics of structure. This led to the Scrutiny Action Plan and modifications in the operation and application of Scrutiny in Devon. The four pillars of which were to; continue to embed a strong culture in support of Scrutiny; Promote the value and impact of Scrutiny; Planning work for maximum impact, and; quality evidence gathering session to inform policy development. As a result of this work Scrutiny is now in line with national best practice with practice such as annual work programming, impact measurement and not having information items coming to public committee.

Scrutiny Committees aim to operate in a non-partisan, critical friend way which serves 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'.

In the last 12 months there were 2 call-ins through the Corporate Infrastructure and Regulatory Services Scrutiny Committee. The first call-in was debated at Committee on 10 May 2022 in relation to the decisions of the Cabinet in regard to the South-West Exeter Housing Infrastructure Fund and also the proposals relating to the construction of a community facilities building in Cranbrook Town Centre. The second call-in was heard at Committee on 21 February 2023 in regard to a proposed land purchase. These call-ins may not have resulted in any significant changes to decisions, but it reinforces the independence and value of Scrutiny in applying an 'external' view on decisions.

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. The Chairs and Vice Chairs of Scrutiny have continued to meet monthly to co-ordinate and advance quality Scrutiny work.

Over the last 12 months Corporate Infrastructure and Regulatory Services Scrutiny has completed a high number of investigative projects in the form of Task Groups and Spotlight Reviews. This year has seen the Committee contribute to good decision making of the authority by giving an evidence based view on policy direction for whether the local authority should apply for enforcement powers for moving traffic offenses as well as the replacement service for the corporate finance system. Other work has also been undertaken on the cost of living and what the Council can do to support the most vulnerable as well as Devon County Council staff. The Committee has also looked to work with district councils over joint approaches to motorhomes throughout Devon.

The Children's Scrutiny Committee has been focused on consolidating its good practice and continuing to act as a critical friend to the service. In Devon, Children's Social Care and SEND services are both on improvement journeys following Ofsted inspections and as such the Committee will continue to focus on those as the main topics seeking to monitor progress and drive improvements. The effectiveness of Children's Scrutiny Committee has been reviewed by the DfE Commissioner and has provided advice to the Committee and the Council. The Committee appointed a new Special Advisor to assist members with their understanding of the service and key lines of questioning to take at meetings further demonstrating the Council's commitment to Scrutiny and Children's Services.

The Children's Scrutiny Committee's use of performance reporting on key performance indicators in Social Care provide assurance to members and opportunities for key questions around the pace of improvement and areas of concern within Children's Services. Aside from quantitative data at Committee meetings, members have met with frontline staff on visits to social care offices and through Scrutiny masterclasses. Members have also heard directly from staff in the Multi-Agency Safeguarding Hub (MASH), Social Workers, Devon's Safeguarding Partnership, Public Health Nursing, Bridges, Early Help and Disabled Children's Services in just the first 3 months of 2023 alone. The Committee's SEND Task Group was finalised in November 2022 and includes evidence-based recommendations for change after hearing from 33 witnesses across Devon. The report has been highlighted by the Centre for Governance and Scrutiny as an "excellent example of good scrutiny" and

was used to help brief MPs on the Education Select Committee in their preparation for an oral evidence session on the Government's SEND Improvement Plan in March 2023.

The Health and Adult Care Scrutiny, members have continued to represent the views of local people, seeking to ensure ongoing public scrutiny of NHS Devon and adult social care. Scrutiny has maintained an overview of health and care across the County to understand how the impact of Covid-19 has reshaped local priorities and plans. The Committee has continued to closely monitor health and social care performance. NHS Devon faces significant issues with waiting lists and its finances, which members robustly track and challenge. Budget updates from NHS Devon and also adult social care are now being presented at each Committee.

In June 2022 a Spotlight Review on the Ambulance Service highlighted a series of recommendations to improve issues relating to ambulance response time. In January 2023 members received an update on those recommendations and recognised significant progress having been made to improve handovers and response time. The rapid assessment triage model that members advocated being more widely used across Devon's acute hospitals had for instance subsequently been introduced in Barnstaple. Also during the last year, members undertook a review on Community Pharmacy. Community pharmacy played an invaluable role during the Covid-19 pandemic delivering vaccines and continuing to provide medication for patients. However, there have in some areas been significant issues with service delivery and short notice closures have exacerbated public frustrations. Members set out a series of recommendations to the health system aimed at helping to alleviate some of the issues.

The Committee's critical friend role in terms of unpaid carers is long standing and members continue to advocate strongly for carers ensuring that the County Council, the health system and the wider society recognises and values this. The Committee continues to highlight how essential it is that carers in Devon are identified and supported to ensure they are not isolated and alone, rather their incredible efforts are fully recognised and their physical and mental health needs looked after. Carers Support and the Carer Offer was one a number of public consultations that commenced in February 2023. The Health and Adult Care Scrutiny Committee highlighted the need to review the County Council's corporate approach to public consultations on service change.

Health and Adult Care Scrutiny has continued to closely monitor and review the future of health services in the Teignmouth and Dawlish area. In March 2023 a Task Group was established to gather evidence to determine whether there was evidence to make a referral to the Secretary of State on the grounds that the proposal (from the NHS) to close Teignmouth Community Hospital '*would not be in the interests of the health service in the area*'.

Devon has continued to host the joint Local Enterprise Partnership (LEP) Scrutiny Committee which meets three times a year to review the economic landscape across the region. This year scrutiny has included the cost of living crisis, social mobility and carbon-free energy as well as monitoring the development of the LEP towards devolution and the future Combined Authority.

The work of Devon Scrutiny has continued to be held up as best practice amongst peers, with the Head of Scrutiny contributing to national debate and development of the role and function of Scrutiny in Local Government. 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 County Council continues to be faced with significant service delivery challenges and financial pressures. The uncertainty of future Government support to address the ongoing costs as a result of the pandemic is a key risk. The impact of the Government's reform of the public realm and local government finances also continues to influence the Council's current and future performance.

The Council also finds itself in a very challenging internal position in that Children's Services, SEND provision and budget sustainability face serious challenge along with concern from stakeholders regarding confidence in the Council to address these challenges. The failure of the Council to improve the Inadequate judgement by Ofsted of Children's Services over a 12-year period has resulted in the Children's Minister issuing a Revised Statutory Direction for social care specifically citing failures of corporate governance and escalating to the appointment of a Commissioner to oversee improvement and hold the Council to account.

There is also Government intervention in the Special Educational Needs and Disabilities (SEND) service following external inspection that highlighted the need for significant improvement. The Council is continuing its work with the Department for Education Safety Valve Programme as the service continues to cost significantly more than the Government funding provided. The cumulative overspend is now £125 million. Linked to these formal situations and serious concerns external assessment bodies such as Ofsted have reported in their monitoring issues relating to corporate governance and declared that there has been little or no improvement in services for 3 years since the last inspection. These are serious, material, well evidenced failures of the County Council's governance. In response the Leader and Chief Executive in meetings with the Children's Minister have agreed the urgent need for a Review of Corporate Governance as a priority in conjunction with the formal work of the Improvement Boards in Children's Services.

The Council also agreed the following significant actions, specific policy changes or revised strategic objectives during 2022/23 which will impact on future performance:

- Treasury Management Strategy 2023/24 - 2026/27 and Prudential Indicators 2023/24 - 2027/28
- Medium Term Financial Strategy 2023/24 - 2026/27
- Capital Programme Overview 2023/24 - 2027/28
- Capital Strategy 2023/24 - 2027/28
- Pay Policy Statement 2023/24
- County Fund Balance and Earmarked Reserves 2023/24
- Admission and Education Transport Policies 2023/24

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.

Efficient, effective and ethical governance protects the public interest and the Council itself. Members and Officers are supported by a wide range of policies 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 Ethical Governance Framework is reviewed annually and any issues for the future ethical 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 Ethical 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.

The Standards Committee met 4 times in 2022/23. Co-opted members also attended several other meetings of Committees to observe and monitor compliance with the Council's ethical governance framework. A total of 7 complaints were received under the Members Code of Conduct alleging breaches of the Code, of which four were determined as no breach of the Code. There was one case where a formal investigation was required.

In May 2022 the new Model Code of Conduct from the Local Government Association was considered but not adopted by the Council. The Devon Code was instead strengthened with issues such as introductory statements, clearer definitions, application of the Code, social media, strengthening harassment definitions, gifts and hospitality and compliance with the Code and sanctions as well as declarations of interest.

The work of the Standards Committee during the year is set out more fully in its [Annual Report 2022/23](#).

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 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.

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 since joined the Partnership. South Hams District Council and West Devon Borough Council have subsequently become non-voting partners of the Partnership. North Devon District Council became a member of the Partnership on 1 April 2020. Devon and Somerset Fire and

Rescue joined the Partnership for the delivery of Internal Audit Services on 1 October 2022.

Devon Audit Partnership provides professional internal audit, counter fraud and assurance services including risk management, consultancy, governance, business improvement and cost containment. Alongside the audit work with the district councils, the Partnership also undertakes audit services for 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.

Risk Management

Risk is defined as an uncertain event or set of events, that should it occur will affect the Council's ability to achieve its objectives. Like all organisations, the Council faces a wide range of risks and these can occur at any level, from the strategic to day-to-day operations. It is not about managing things which have already occurred or are occurring presently as these are Issues rather than Risks.

Corporate Risk Management is specifically focused on the organisation. It looks for events with the potential to stop the organisation from achieving objectives, goals, plans or projects. It is important that these risks are identified and take steps to try and stop them happening, or reduce their impact if they do.

Each area of the Council has a representative who forms part of the Corporate Risk Management Group. This Group meets as required to discuss risk management at the authority. The members of this Group have a responsibility within their designated areas for ensuring risk management is carried out in line with agreed policies and processes. The membership will change over time to reflect changes to staffing and the organisation.

The Council's risk framework is below. At the centre are the Risk Registers and feeding out are four main drivers of the process: -

- Risk Management - the day to day management of risks.
- Risk Reporting - from informal discussions and reporting to Management teams and Leadership Group, through to the Audit Committee.
- Data Quality - the quality of the information contained in the registers. Are the risks true risks or failed objectives? Do the controls reflect the scoring? Have they been reviewed in line with scoring?
- Framework - the support to make risk management happen. The policy, the system and the people involved.



The risk register can be found at <https://risks.devon.gov.uk/>

Head of Internal Audit Opinion

The Head of Devon Audit Partnership is required to provide the Authority with an assurance on the system of internal control of the Fund, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits undertaken during 2022/23, and prior years
- any significant recommendations not accepted by management and the consequent risks
- internal audit's performance
- any limitations that may have been placed on the scope of internal audit

Financial management arrangements within the Authority are well established and staff have many years of experience giving them a good understanding and knowledge of the financial controls and requirements of regulations and policies. In 2022/23 six audits for Devon Pension Fund and Peninsula Pensions were completed, with two audits where the review has commenced in 22/23 and remain in progress. Reviews this year and in prior years provide sufficient evidence that overall, the Devon Pension Fund and Peninsula Pensions have suitable governance arrangements in place to mitigate exposure to identified risks. Good working practices are in place to meet statutory requirements. The Investment and Pension Fund Committee are kept well informed, concerning the Fund's value and the allocation of assets, and are updated regarding the LGPS Governance scheme.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Audit reports

include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process. Management are provided with details of Internal Audit's opinion on each audit review carried out in 2022/23 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews. Overall, and based on work performed during 2022/23, Internal Audit can provide 'reasonable assurance' on the adequacy and effectiveness of the Fund's internal control framework.

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 2022/23 (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 a number of virtual engagement 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 impact of the wider global events in Ukraine, and the pressure on budgets across the public sector resulting from the wider cost increases have continued, while the impact of the Covid-19 pandemic remains across the health and care system as workforce challenges persist. Action had to be taken to safeguard the financial sustainability of the Authority in 2022/23 and a number of cost containment measures were implemented particularly relating to Children Services, and the SEND budget, which remain a significant risk.

The NHS Long Term Plan set the ambition that every part of the country should be an Integrated Care System (ICS) by 2022. It encourages all organisations in each health and care system to join forces, so they are better able to improve the health of their populations and offer well-coordinated efficient services to those who need them. Devon ICS was launched on 1 July 2022. The two new elements of ICSs (Integrated Care Boards and Integrated Care Partnerships) are now established and have a much greater focus on collaboration with health and care partners across the system. To further support integrated working, Devon is developing a new Operating Model and Strategic Plan that will set out how local partners will work together to plan and deliver care.

Waiting lists and finances however continue to present huge challenges for NHS Devon. Integrated Care Boards must make a 30% real terms reduction in their running costs budgets by 2025/26, with at least 20% to be delivered in 2024/25. Next year significant savings will be needed to deliver a financially sustainable system wide plan. This is a long process that will require support from all partners in the County.

From April 2023 the Government has introduced a duty for the Care Quality Commission to independently review and assess local authority performance in delivering their adult social care duties under part one of the Care Act (2014). The Government's proposed approach to intervention and support is similar to that which can be invoked following an adverse judgement in an Ofsted inspection of children's services. Local preparations are continuing to ensure readiness for the new assurance framework which commenced on the 1 April 2023, and to ensure robust governance arrangements are place. This will include developing oversight and challenge mechanisms from elected members, and particularly the Health and Adult Care Scrutiny Committee.

Making Devon a fairer and more equal County is one of the six priorities in the Strategic Plan 2021 – 2025 that the Council adopted in 2021. Equality, Diversity and Inclusion continues to remain a key priority for the Council and this has been made even more evident by the Race Audit in 2021 and movements such as Me Too challenge and Black

Lives Matter, that demonstrated some of the inequality in society. The Council is committed to celebrating and promoting the rich and diverse backgrounds, cultures, and abilities of its residents and employees across the whole of the County, challenging inequality and imbedding equality in all that it does. In line with many public bodies across the United Kingdom, the Council recognises the need to have a fundamental look at equality and diversity and what that means for Devon, how inequalities and discrimination are addressed and where it can make improvements for the benefit of all Devon's residents. In February 2023 Cabinet approved the formation of the Devon Equality, Diversity and Inclusion Commission to drive and support this endeavour. The Commission's work shall form the cornerstone of and diversity standards and best practice to which the County Council's policies, procedures and work will strive to adhere to.

In February 2023 the Council set the Revenue Budget for 2023/24, the Medium-Term Financial Strategy to 2026/27 and the Capital Strategy 2023/24 to 2027/28 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, which 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 Strategy 2022/23 -2025/26 confirmed that investment income targets had been achieved and all lending had been carried out in accordance with the Council's Treasury Management Strategy. No new long-term borrowing however was undertaken during 2022/23. There has been no need to externally borrow since January 2008, mainly as a result of the effective use of internal borrowing and capital receipts. Should there be a need to undertake or invest in a major strategic project; this may require new external borrowing. This option has already been approved by Cabinet for the Freeport project in 2024/25, which will be part funded by external borrowing. That external borrowing, plus interest, will be repaid by a share of future Business Rates income.

Outside Bodies

Councils should report on separate bodies they have set up or which they own as part of their Annual Governance Statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place. Detailed below is a list of outside bodies that need to fulfil the above criteria:

Company Name	Role
<u>CSW Group Limited</u>	CSW Group Ltd is contracted by the County Council and neighbouring local authorities to assist them in meeting their Statutory Duties under the Education and Skills Act 2008. These duties relate to the provision of

	services to encourage, enable or assist young people in effectively participating in education or training. CSW Group Ltd undertake tracking activities and to provide information to the DfE and the Local Authority in respect of personal information; individual characteristics and the current activities of young people aged 13-19.
<u>DYS Space</u>	DYS Space established as an independent Public Service Mutual with charitable status in 2016. Space delivers professional youth work, community projects and other services to ensure young people have the best opportunities to succeed.
<u>Libraries Unlimited</u>	Libraries Unlimited is an independent staff and community owned charity, established in 2016. Libraries Unlimited is a company limited by guarantee with charitable status.
<u>Norse South West</u>	Previously NPS South West Limited and Norse, in May 2022 Norse South West was formed as a joint venture with the County Council. Services include architecture, building and quantity surveying, project management, mechanical, electrical and structural engineering, landscape architecture, estates and asset management as well as facilities management, catering, cleaning and printing services.

Conclusion

The preparation of the Budget for 2023/24 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 recommended to the Council. The Revenue Spending Targets for 2023/24 total £696 million which represent an increase of £66 million or 10.5% on 2022/23.

The Budget for 2023/24 is one of the most challenging the authority has faced. The cost of living and geopolitical situation has created huge financial pressures nationally. Consequently, the Council has faced unprecedented price and demand pressures in the current year. The pandemic has placed immense strain on the health and social care system over the last three years; demand for services, significant cost increases and increasing intensity of care required has caused huge pressure on the Council's budget. This coupled with the need to invest in and improve the Council's services to children has meant investment of almost £70 million is needed in these services next year. The settlement has brought an increase in funding but it is not sufficient to cover the increased costs the Council is facing. To respond to this challenge, a cross organisational programme of transformation has identified £47.5 million of savings and new income for 2023/24 within service budgets.

The final Local Government financial settlement (Settlement Funding Assessment) for 2023/24 was £107.2 million. The target budget for Integrated Adult Social Care had increased by £27.3 million, for Children and Young People's Futures an increase of £32.4 million.

The Council has, over many years, built up its reserves to a significant level and in recent years used these reserves to protect services and enable transformation and invest to save projects. Although now at a more modest level the reserves are still at an appropriate level to safeguard financial resilience and manage risk. The single largest financial risk to the authority is the SEND cumulative deficit and although held outside of the main reserves and balances it is none the less a risk over the longer term. It is imperative that

the management plan is successful in reducing spending to within the Government grant allocation and that the DfE fund the cumulative deficit as proposed.

The Council's Leadership Team (Directors, Deputy Directors 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. However, there is no room to be complacent and the Governance review proposes a root and branch look at all the Council's arrangements to ensure a commitment to driving improvement in all its services, ensuring value for money and embedding good governance in all that we do.

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.

Donna Manson

Chief Executive

19th July 2023

.....
Chair of the Audit Committee, on behalf of Devon County Council
25th September 2023

INTERNAL AUDIT UPDATE REPORT FOR 2023/24

Report of the Director of Finance

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

Recommendations:

That the Committee reviews and considers:

- i. the current assurance opinion.
- ii. that members review and consider the performance of Devon Audit Partnership during the year.
- iii. that members review and consider the outcomes of the work completed.

The key objective of Internal Audit is to provide assurance to Members, Leadership Group and the Director of Finance (as the Council's "section 151 responsible officer"), on the adequacy and security of those systems on which the County Council relies for its internal control, both financial and management.

The attached report provides an update on the opinion of the Council's Internal Audit Service (Devon Audit Partnership) and describes the progress against the internal audit plans for 2023/24 that were approved by the Audit Committee in February 2023.

This work and the continuing contribution of Devon Audit Partnership to both risk management and anti-fraud arrangements within the Council, lead to an opinion that the Council continues to have an effective framework of control which provides reasonable assurance regarding the effective, efficient and economic achievement of its objectives.

The Committee can take assurance from these findings.

Angie Sinclair

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

Contact for Enquiries: Tony Rose
Tel No: (01392) 382437 Larkbeare House

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
Nil		

There are no equality issues associated with this report.

Internal Audit

Audit Committee In-Year Monitoring Report 2023/2024

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Devon County Council

September 2023
Official



Support, Assurance and Innovation

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Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, North Devon, Torrington, South Hams and West Devon councils. We aim to be recognised as a high-quality assurance service provider 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 tony.d.rose@devon.gov.uk

Confidentiality and Disclosure Clause

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

There has been much change to the Senior Leadership Team across the Council, and this has come with an increased scrutiny over policy and procedures in place across many services. There has been an increase in positive engagement from staff across the Council and we are being alerted to issues where control weaknesses may exist, which has targeted some of our audit work over the last 4-5 months. This targeted work will become more noticeable as we move into the Autumn and the work is finalised with management responses. The November update report will conclude on the outcomes of some of the targeted work we are undertaking.

Working closely with our Risk Management team we strive to ensure that we are reviewing the right areas of the Council at the right time to increase the likelihood of success and to be more resilient to change and challenges as they arise. Consideration of the Council's Strategic and Corporate Plan is vital when planning our work to support the Council in its vision to "manage potential opportunities and threats in achieving its objectives".

This report provides a summary of the performance against the Internal Audit plan to date for the 2023/24 financial year, highlighting the key areas of work undertaken and summarising our main findings and recommendations aimed at improving controls where our work has been finalised.

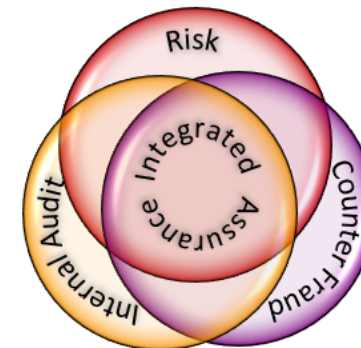
The key objectives of the Devon Audit Partnership (DAP) have been to provide assurance to Devon County Council on the adequacy, security and effectiveness of the systems and controls operating across the Council and to provide advice and assurance to managers and staff. The Internal Audit plan for 2023/24 was presented to, and approved by, the Audit Committee in February 2023. The following report and appendices set out the position to September 2023.

The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare a report providing an opinion at the end of each year that can be used by the organisation to inform its governance statement, this report provides a position statement on the progress towards that. The level of risk associated with each of the areas in Appendix 1 has been determined either from the Local Authority's Risk Register (LARR), or the Audit Needs Assessment (ANA) carried out at the planning phase. Where the audit was undertaken at the request of the client it has not been risk assessed. Assurance and recommendations should be considered in light of these risk levels and the impact this has on achievement of corporate / service goals.

Expectations of the Audit Committee from this report

Members are requested to consider: -

- The opinion statement within this report.
- The completion of audit work against the plan.
- The scope and opportunity of audit to complete the audit work.
- Any audit findings provided.
- The overall performance and customer satisfaction on audit delivery.



In review of these the Audit Committee are required to consider the assurance provided alongside that of Corporate Risk Management and satisfy themselves from this assurance that the internal control framework continues to be maintained at an adequate level to mitigate risks and inform the Executive for governance requirements.

Tony Rose Head of Devon Audit Partnership

Audit Assurance Statement

Overall, based on work performed during 23/24 to date and our experience from the previous year's audit, the Head of Internal Audit's Opinion is of "**Reasonable Assurance**" on the adequacy and effectiveness of the internal control framework within the County Council

Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks.

Where management actions have been agreed, as appropriate we shall undertake follow up work to ensure that the identified risks have been mitigated.

Leadership have been provided with details of Internal Audit's opinion on each audit review carried out in 2023/24.

Audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review.

If significant weaknesses have been identified in specific areas, these will need to be considered by the Council in preparing its Annual Governance Statement for the Statement of Accounts for 2023/24.

Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems including processes in place to establish and monitor the achievement of the Council's objectives; facilitate policy and decision making; ensure economical, effective and efficient use of resources, compliance with established policy, procedure, law and regulation; and safeguard the Council's assets and interests from losses. Core financial and administrative systems were reviewed by Internal Audit.

Risk Management

Risk Management process at strategic and operational levels remain in place. The production of a DCC Strategic Plan allows the new and existing risks to be directly linked to the achievement of the core objectives.

Governance Arrangements

Governance arrangements have been considered in all our audits but with opportunities to improve consistency or alignment to business need. We will continue to review the improvements to governance and control arrangements in 2022/23.

Performance Management

Performance is subject to monitoring at management level.

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

High Level Summary Audit Plan – 2023-24					Corporate/ Strategic Risks and Projects	Client and Audit Governance
Adult Care & Health	Children’s Services	Climate Change, Environment & Transport	Public Health, Communities & Prosperity			
<p>Specialised Risk Areas</p> <p>Supported Living Tender</p> <p>Impact Assessments</p> <p>Service Closure</p> <p>ACH System Replacement Project</p> <p>CQC – Assurance of Adults Social Care</p> <p>ICB Savings Plan</p> <p>Review of S75 Arrangements</p> <p>Direct Payments – System Development</p> <p>Liberty Protection Safeguards</p> <p>Commissioning – Best Value</p>	<p>Children’s Services Social Care – Ofsted Monitoring</p> <p>Financial Arrangements of EHCP Payments to Independent Schools</p> <p>Payments to Independent Placements – Social Care</p> <p>Payment by Results (Used to be Troubled Families)</p> <p>Consultant Process for Schools Forum Financial Arrangements</p> <p>Financial Intervention Panel Schools (FIPS)</p> <p>Direct Payments – Virtual Wallet</p> <p>MASH IT System (F/Up)</p> <p>Direct Payments (F-Up)</p>	<p>Lack of capacity or capability to respond effectively to highway safety related issues</p> <p>Lack of capacity or capability to effectively respond to extreme weather events</p> <p>Waste Strategy</p> <p>Transport – Impact of Covid-19</p> <p>Sustainable Urban Drainage System</p> <p>Section 106 Agreements</p> <p>Bio Diversity Net Gain</p> <p>Commuted Sums</p>	<p>Prosperity:</p> <p>Mobility Aids</p> <p>Learn Devon</p> <p>External Funding with Community Renewal Funds</p> <p>Public Health:</p> <p>Budget Pressures</p> <p>Business Continuity</p> <p>Fund led Audit</p> <p>Communities:</p> <p>Asylum Seekers</p> <p>Domestic Abuse</p> <p>Modern Slavery</p> <p>Incoming Serious Violence</p>	<p>Budget Targets – Delivery of Savings/Accountability</p> <p>SEND – Savings Review</p> <p>People Strategy</p> <p>Spend Analysis – Eight Point Plan</p> <p>Financial Resilience of Key Suppliers – Business Continuity</p> <p>Best Value</p> <p>Governance & Commissioning of Corporate Contracts</p> <p>Single Sign-On</p> <p>Lone Worker Absence Devices</p> <p>Sickness/Absence Management</p> <p>Climate Change</p> <p>Core Systems Replacement -Finest – CareFirst</p>	<p>Audit Committee</p> <p>Corporate Governance</p> <p>Follow Up Reviews</p> <p>Audit Planning and Coordination</p> <p>Contingency</p>	
						<p>Adaptive Plan</p> <p>Unscheduled Resource, Options:</p> <p>OT & SW Recruitment</p> <p>Community Services</p>
<p>Core Assurance</p>	<p>Key Financial Systems (Material Systems) - Payroll, Creditors, Debtors, Income Collection, Bank Reconciliation, Treasury Management, Main Accounting System Inc interface systems & reconciliations.</p>					
	<p>Grants - Troubled Families, Grants Out -Governance and monitoring</p>					
	<p>ICT – Disaster Recovery, Firewalls, Access Controls, IT Asset Management, Capacity & Availability, ICT Cyber Security – Vulnerability Management</p>					

Adaptive Plan – areas of review (priorities)

Key:

- Initial priorities
- Revised priorities

Corporate and Strategic

- Budget Targets – Delivery of Savings/Accountability
- SEND – Savings Review
- People Strategy
- Financial Resilience of Key Suppliers – Business Continuity
- Governance & Commissioning of Corporate Contracts
- Budgeting Processes
- ED/Out of Hours
- Barclaycard / Procurement Card Spend
- Safer Recruitment
- Single Sign-on – **pause until 24/25 due to on-going work in this area**
- Lone Worker Absence Devices – **on hold until 24/25 to allow the devices to be procured and training to be given**
- Sickness/Absence Management – **no longer a priority**
- Spend Analysis – Eight Point Plan – **removed from plan**
- Expenses
- Climate Change
- Core Systems Replacement – Finest - CareFirst

Adult Care and Health

- Supported Living Tender
- Impact Assessment
- Services Consultation Process (Service Closure)
- ACH System Replacement Project
- CQC – Assurance of Adults Social Care
- ICB Savings Plan
- Review of S75 Arrangements
- Direct Payments – System Development
- Liberty Protection Standard – **on hold until after the next General Election**
- CHC F/Up
- OT and SW Recruitment
- Community Services
- Effective replacement care offer to avoid carer breakdown
- Transitions – Project Board

- Review Programme 18-64
- Direct Payments – (F/Up)

Children’s Services

- Children’s Services Social Care – Ofsted Monitoring
- Financial Arrangements of EHCP Payments to Independent Schools
- Payments to Independent Placements – Social Care
- Payment by Results (Used to be Troubled Families)
- Consultant Process for Schools Forum Financial Arrangements
- Financial Intervention Panel (FIPS)
- Direct Payments – Virtual Wallet
- MASH IT System (F/Up)
- Direct Payments – (F/Up)
- Children’s Homes
- Compliance with the Care Act Requirements
- CS Direct Payments Spend Analysis – (F/Up)

Public Health, Community & Prosperity

- Mobility Aids
- Learn Devon
- External Funding with Community Renewal Funds
- Budget Pressures – **no longer a priority**
- Business Continuity – **no longer a priority**
- Fund Led Audit – **no longer a priority**
- Sexual Health
- PHSE
- Asylum Seekers (Migration & Resettlement) – **no longer a priority look to review in 24/25**
- Domestic Abuse
- Modern Slavery
- Incoming Serious Violence
- Impact of Covid – **No longer a priority**
- Animal Disease Emergency/Contingency Plans – **no longer a priority, plans tested in real time last year.**

Climate Change, Environment & Transport

- Lack of capacity or capability to respond effectively to highway safety related issues
- Lack of capacity or capability to effectively respond to extreme weather events
- Waste Strategy – **this will be included within the Section 106 audit**
- Transport – Impact of Covid-19 – **No longer a priority**

- Sustainable Urban Drainage System
- Section 106 Agreements
- Bio Diversity Net Gain
- Commuted Sums
- Tree Management System – Ash Dieback
- Fees and Charges
- Planning Team Processes
- Co Cars
- SEND Transport – (F/Up)

Digital Transformation & Business Support

- Disaster Recovery
- Firewalls
- Access Controls
- IT Asset Management
- Capacity and Availability
- ICT Cyber Security – Vulnerability Management
- Cyber Security (Focus Governance Arrangements 22-23) – (F/Up)
- Change Management – Compliance with Internal Policy and Procedure – (F/Up)
- Project Management 22-23 – (F/Up)
- Cyber Security 21-22 – (F/Up)
- Data Storage – (F/Up)
- Shadow IT – (F/Up)
- Vulnerability Management – (F/Up)
- Data Protection – (F/Up)

Progress Against Plan

There has been a growing trend in the sector towards more flexible audit plans to enable internal audit to be more responsive to changing risks, in turn maximising resource focus to clients’ needs as and when needed – *Agile Auditing*. This principle looks set to continue and has several benefits with ever changing priority and related risks. Key benefits provide for:

- Reduction in non-productive resource planning.
- Improved opportunity to keep plan aligned to current risks within Service Areas and as a whole for the Authority.
- More effective and timely pre-audit engagement with Service Leads.

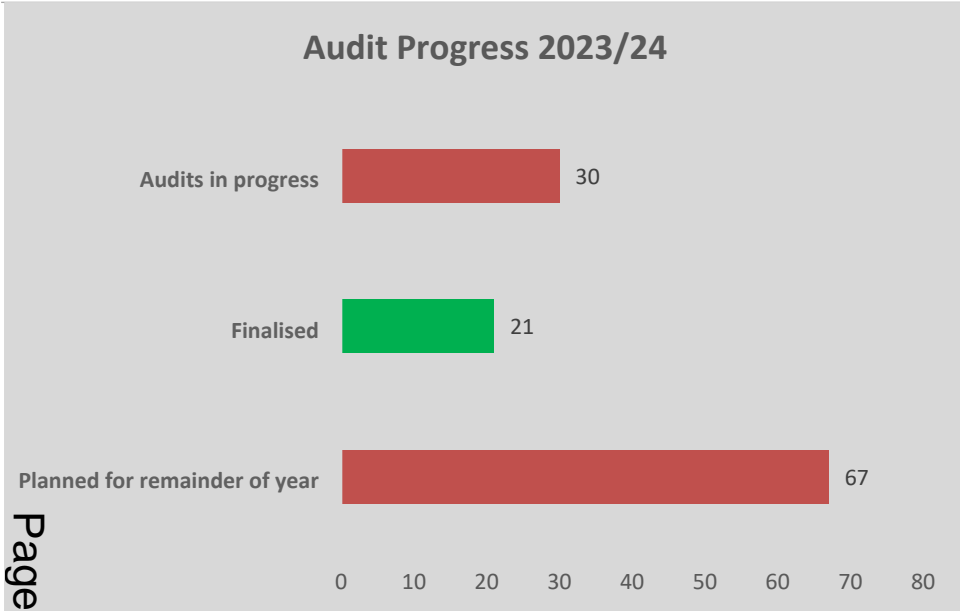
- Greater and more regular discussion with client leads – supporting current risk and work priorities.
- The current trend for more flexible audit plans – agile auditing.
- Experience that plans change regularly.
- Changes in external risk drivers are more easily picked up in audit assurance needs.

Our audit plans are always built around the Risks identified through Risk Management, audit needs and perceptions of current issues and in discussion with client management. The audit resource delivery envelope has been set to provide opportunity for greater depth of coverage and further extension of counter fraud work.

Our approach is to scope, schedule and resource plans throughout the year with Service Leads in an agile way incorporating risk changes as necessary. Resource allocation will be decided based on need at this time.

We endeavour to ensure that sufficient coverage across the Council is maintained to ensure that we can provide an inclusive end of year annual assurance opinion.

The positive engagement from staff across the Council has enabled us as at 15th August 2023 to have 21 pieces of work finalised for the 23/24 financial year and a further 30 audits in progress. We plan (subject to changes in risk and priorities) to complete a further 67 audits before the end of the financial year.



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Value Added

We know that it is important that the internal audit services seek to "add value" whenever it can. We obtained feedback from those audited during the year to date who considered we were able to add value by:

- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Linking across Risk, Counter Fraud and Audit to respond to issues that occur.

Summary Audit Results

Integrated Adults Social Care

We have undertaken some non-assurance work reviewing the services response to a Care Provider who failed. This was a very valuable exercise looking back and reflecting on the decisions made to ensure improvement and clear action plans if this were to happen again in the future.

We are continuing to act as a critical friend attending regular Assurance and Governance Board meetings for the Care First system replacement, Transitions, Community Services and CQC. In addition, there are two further reviews underway for the 18-64 Review Programme and the Service Consultation Process, the findings of which will be reported to the next Audit Committee.

Public Health, Communities & Prosperity

We have undertaken a desk top review of the Asylum Seekers Emergency Handbook where we have provided Reasonable Assurance over the control framework. We have a further review on-going in relation to Sexual Health, the findings of which will be reported to the next Audit Committee.

Children and Young People's Futures

We have several reviews on-going in this area relating to the Financial Arrangements of EHCP Payments to Independent Schools, Payments to Independent Placements for Social Care, Consultation Process for Schools Forum Financial Arrangements and Financial Intervention Panel for Schools. The findings from these reviews will be presented to the next Audit Committee.

In addition, there is one draft report which has been issued for which we are currently awaiting management responses. This relates to Children's Services Use of iTrent where we have given Limited Assurance.

Key Financial Systems

The majority of our work in this area is underway with planned completion for October 2023. Since our last report we have completed work on the Treasury Management system and Substantial Assurance has been provided to support the good controls in this area.

Digital Transformation and Business Support

We have completed our reviews of Patch Management and Shadow IT for which we have provided Limited Assurance for both. We have a further review underway for IT Asset Management. In addition, Audit are attending the Disaster Recovery Project Board to provide assurance and / or challenge in real-time.

Climate Change, Environment & Transport

We have completed our review of the Exeter ERF Annual Waste Reconciliation and have provided Reasonable Assurance over the control framework as we found the reconciliations have not been undertaken on an annual basis.

There are currently two further reviews underway and these are Planning Team Processes and Sustainable Urban Drainage Systems (SUDS) the findings of which will be reported to the next Audit Committee.

Finance & Public Value

We have completed our review of Off Payroll Working and Reasonable Assurance has been provided over the control framework. In addition, we have concluded our 2022/23 review on the Barclaycard Spend.

Over the past few months, we have been reactive to additional work as requested by the Director of Finance and are currently carrying out further work on both the Barclaycard and Procurement Card spend and an additional review of the Financial Regulations. Our findings will be reported to the next Audit Committee.

We continue to provide advice and support as requested. We are currently providing advice on the Finest Replacement Project which will be on-going through to implementation.

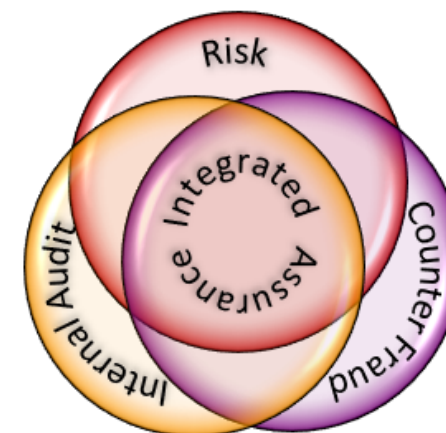
Appendix 1 of this report details the assurance opinions for individual audits, for which definitions of the assurance opinion ratings are in Appendix 2.

Investigations and Irregularities

To date during 2023/24 financial year Devon Audit Partnership was made aware of 22 irregularities across the Council. Analysis of the types of investigation and the number undertaken is shown in the following table.

Fraud / Irregularity Summary		
Case classification	Number of cases	Summary Details
Theft / Loss of IT equipment	6	These cases mainly relate to loss or potential theft of mobile phones/laptops.
Tenders & Contracts	0	None.
Financial Irregularities	0	None.
Employee Conduct	0	None.
Blue Badge Misuse	16	Customer Services record instances where Blue Badge have been misused, these are passed to DAP and recorded. DAP Fraud team review and investigate where appropriate.

Further detail of the DAP Counter Fraud activity can be found in the Counter Fraud Report provided separately by DAP.



Customer Value

Public Sector Internal Audit Standards (PSIAS)

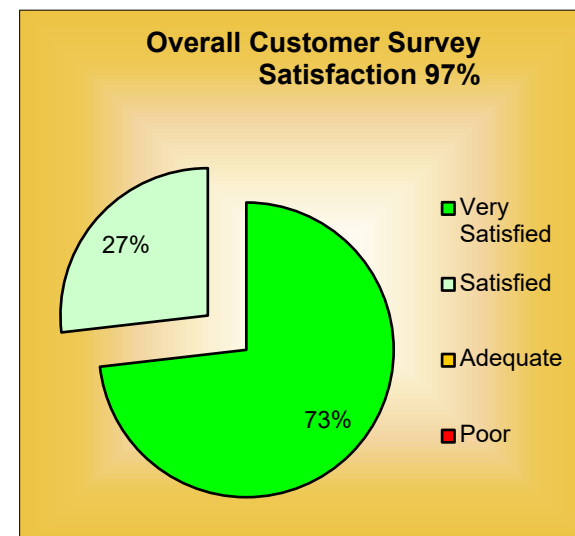
Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Our internal audit charter was approved by senior management and the Audit Committee in February 2022. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

Quality Assessment - Through external assessment December 2021 'DAP is continuing to operate in conformance with the standards. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS).

The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement are supported by a development programme.

Improvement Programme - DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review.



Customer Service Excellence

DAP maintains accreditation by G4S Assessment Services of the CSE standard during the year. We have had some very complimentary feedback of where our team have been able to add value to the Council these may be found upon our [webpage](#). The chart on the right of this page summarises the customer satisfaction results received to date during 2023/24.

Inherent Limitations

The opinions contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

Appendix 1 - Summary of audit reports and findings from June to September 2023 (since last Audit Committee meeting)

Integrated Adult Social Care

Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

<p>Managing Care Provider Failure</p> <p>Advisory piece of work</p> <p>Status: Final</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 386</p>	<p>Internal Audit facilitated a 'lessons learned' session with management to obtain their views on the process they followed in managing the care provider failure. We asked them to consider what went well, what did not go so well and what learning can be taking forward.</p> <p>There were good conversations had during the session, allowing staff to debrief and reflect on their feelings surrounding the process. Staff involved in managing the response of the care failure worked well together as a team and have built strong working relationships. The experience has provided a greater understanding in some areas including knowledge around default notices and contracts, and staff feel they are more aware of some of the warning signs which could be acted upon sooner.</p> <p>However, gaps in communication due to high volumes of staff changes in the provider, insufficient due diligence processes and the time to form a clear exit strategy, will have impacted on staff and the timeliness of the response. The main area to consider going forward is to establish a policy/strategy for managing whole service provider failure issues to help limit the risk exposure when encountering further care provider failures within Devon, and to ensure a robust response plan is in place, should that event occur again.</p> <p>The consensus from those involved in the session is that it is within their skillset to manage large failures, however they believe an awareness/ownership at a senior corporate level, e.g., risk committee, would have been beneficial to the organisation given the potential reputational risk. This awareness/ownership could have enabled other corporate resources to be quickly mobilised to mitigate any emerging risk.</p>
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Public Health, Communities & Prosperity

Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

<p>Asylum Seekers – Emergency Handbook</p>	<p>Setting up and supporting Contingency and Emergency Asylum Hotels - A local guide is a well-structured, formatted, and accessible document.</p>
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Reasonable Assurance Status: Final	<p>Following a desktop review, it was considered that the handbook is a validated resource, includes key strategies and actions, highlights some learning and development opportunities, and provides recommendations particularly in high-risk areas.</p> <p>Minor observations have been reported for management to consider to potentially increase partner experience and obtain clarity that document security/access is controlled. Whilst the document is well put together, it would merit a periodic review to ensure latest guidance is captured even though the document is currently in draft.</p>
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Children and Young People’s Futures

Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

<p>Children’s Services use of iTrent</p> <p>Page 88</p> <p>Limited Assurance</p> <p>Status: Draft awaiting management responses</p>	<p>As part of our testing to provide assurance that iTrent is being adequately used, discussions were had with staff in HR, Children's Social Work Academy, Children's Services Project Management team, Children's Social Care Business Support Managers and the Finance team within Children's Services. We also undertook a range of sample testing of HR/Payroll data, with some of our testing focussed on employees who had been confirmed as working within Children's Social Care.</p> <p>Work is continuing in HR and the Social Work Academy to assist Children's Services by providing ongoing manager training and support, supplementing the comprehensive suite of user-friendly iTrent guidance available to all employees and managers via Inside Devon. However, within Children’s Services, there has been a high turnover of staff with more agency managers than some other areas within DCC and as such, this may increase the risk of inadequate knowledge of iTrent requirements within the service.</p> <p>In most areas, our testing found that iTrent is being used to record, request and authorise data in accordance with the Council’s policy and procedures, however there are areas of concern where updates are not being managed appropriately or incorrect staffing structures have been recorded, which could mean managers may not be permitted to access and authorise updates for their employees, such as recording sickness, annual leave and expense claims.</p> <p>As iTrent is reliant on the information entered into the system, it is difficult to evidence or quantify the information that may be omitted, increasing the risk of incorrect payments made to employees, and could result in inaccurate reporting and monitoring of staff.</p>
<p>Adopt South West – Review of Financial Arrangements</p>	<p>The main focus of this audit was to provide assurance on the current controls in place to mitigate the continuing costs of inter-agency fees, whereby children are placed outside of adopters registered with Adopt South West.</p> <p>Management has demonstrated that they are aware of the types of adopters they need to attract and have undertaken a digital marketing campaign directed towards reaching a large audience of these prospective adopters in respect of 'priority</p>

Reasonable Assurance
Status: Final

children' who may be harder to place, for example, older children, siblings or children with additional needs. Management is also aware of the national effect that the cost-of-living crisis is having on attracting new potential adopters and have advised they are following the national trajectory with the number of registered interests having declined between 2021/2022 and 2022/2023. However, they have yet to undertake further work to understand the impact specifically on prospective adopters within the partnership area.

There has been a decrease in inter-agency spend in 2022/2023 compared with 2021/2022 with more children being placed with adopters registered with Adopt South West. However, unrealistic budget setting for inter-agency expenditure has remained at a standstill for at least the past three financial years, and net spend in this area was still 42% over budget for 2022/2023 with a projected overspend already predicted for 2023/2024.

The new process implemented by management in April 2022, whereby the individual Local Authority is required to authorise the use of inter-agency spend, has reduced previous administrative delays to provide a more timely decision in order to find a family outside of Adopt South West adopters.

Additional audit work was agreed to consider whether the volume of Adoption Support Fund (ASF) applications was impacting on service resources. The ASF is government funding which provides up to £5,000 per child per year to pay for essential therapeutic services for those eligible adoptive families. The ASF is well administered with adequate processes in place and a cohesive working approach across the service. Over the past six months, the procurement of relevant and acceptable service providers (e.g. therapists) has increased, ensuring that families are offered a wider choice of support. However, due to promotion of the fund and after-effects of the COVID-19 pandemic, applications have increased by over 54% since 2020, impacting on staff resources, particularly within Business Support who liaise with providers and families. Furthermore, a change in the way the fund is paid to Adopt South West, has created more time-consuming processes within the Finance team. It has been recognised by management that without access to the ASF, many more families would be in crisis as Adopt SW would not be able to provide the same level of support with their current staff and resources

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Key Financial Systems

Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

Treasury Management

Substantial Assurance
Status: Final

The Treasury Management function continues to show an adequate control framework. Our review of the Treasury Management function concluded that there are effective measures in place to safeguard the Council's funds when investments are being made.

The Treasury Management strategy, policies and procedures are in line with the CIPFA code of practice and have been approved for this financial year by the Full Council and the Investments and Pension Fund Committee. Investments continue to be made in line with procedures, and adequate supporting documentation is retained and available.

Key Financial Systems	
Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment
	<p>The newly implemented rota for obtaining secondary sign-off for Barclays.net transactions is proving to be effective. Monthly reconciliations are completed for both the principal and interest monthly, with unallocated transactions and imbalances being investigated and resolved promptly.</p> <p>Access to the Treasury Management system is adequately controlled and the system is restricted to authorised users, who have the minimum required access to perform operational activities. Following from last year's observation, the Business Continuity Plan in place has been updated and is deemed adequate.</p>

Digital Transformation and Business Support	
Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

<p>Batch Management</p> <p>389 Limited Assurance</p> <p>Status: Final</p>	See Part 2
<p>Shadow IT</p> <p>Limited Assurance</p> <p>Status: Final</p>	See Part 2

Climate Change, Environment & Transport	
Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

<p>Waste – Exeter ERF Annual Reconciliation</p>	<p>As part of the annual reconciliation process the payment mechanism model is reviewed by the service area and an external consultant to ensure the data contained within is accurate. Where data is found to be inaccurate, this is challenged and queried with Viridor. The work conducted by the consultant is valuable to DCC and provides extra</p>
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Climate Change, Environment & Transport

Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment
Reasonable Assurance Status: Final	<p>assurance that the annual reconciliation is adequately controlled. From our testing we can confirm that there adequate controls in place internally, however some observations were highlighted in relation to the service Viridor provide.</p> <p>Through sample testing we identified an error with the payment mechanism model spreadsheet where a charge had been assigned against the wrong month. Furthermore, one invoice within the sample did not match the figure presented.</p> <p>Since the contract was adopted in 2014 the reconciliations have not been conducted annually with the previous reconciliation taking place in 2019/20. A plan is in place to bring these up to date.</p>

Finance & Public Value

Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment

The following audits from 2023/24 have been completed and finalised since June

<p>Barclaycard Spend Analysis</p> <p>Advisory piece of work</p> <p>Status: Final</p>	<p>The spend analysis carried out covers the period from September 2022 to March 2023, and this report provides a summary of the main observations.</p> <p>The total expenditure made on the corporate credit cards during this period amounted to £26,498.69 across 18 of the 32 Barclaycard holders. For the remaining 16 cards there had not been any spend incurred on these cards during this period.</p> <p>A breakdown of the £22,119.70 expenditure by service area shows that Human Resources were responsible for most of the expenditure over the period, with £13,022.32 being spent on recruitment advertising and staff recruitment costs, which accounts for 58.87% of all corporate credit card expenditure. This expenditure was reviewed and deemed compliant with the credit card acceptable use guidance.</p> <p>In relation to the merchant category “Miscellaneous Stores”, most of the £4,605.69 spending related to software purchases and subscription costs by Public Health, Communities and Prosperity. £516.58 were payments made to Amazon. It is unclear why these payments are being made using the corporate card, as DCC has an Amazon Business account, where Amazon orders should be processed through.</p> <p>In relation to the “Amazon Prime” transaction, this appears to consist of a monthly subscription charge, which is not in line with the acceptable use guidance section of the DCC Credit Card Policy. This was an area that was highlighted in the initial spend review that took place between April and August 22, and whilst Amazon Prime subscriptions have reduced, one remains.</p> <p>Except for the Amazon Prime transaction, the spend analysis has not identified any areas of concern in relation to spending, with all expenditure incurred being appropriate and legitimate.</p>
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Finance & Public Value	
Risk Area / Audit Entity	Audit Report
	Residual Risk / Audit Comment
<p>Off Payroll Working (IR35)</p> <p>Reasonable Assurance</p> <p>Status: Final</p>	<p>We have found there to be a generally adequate control framework and processes in place to manage the risks associated with Employment Status Checks. However, there are several areas where the control framework could be strengthened.</p> <p>As per the Head of Payroll and Employment Changes and the Tax Compliance Manager, there isn't a complete central record/system that holds the details of all DCC workers. The majority would be held on iTrent, but there would also be some agency workers held on a separate agency system. Without a complete central record of all workers there is an increased risk that some workers may not be treated correctly for tax purposes. It is appreciated that the creation of such a record is not the responsibility of the Tax Compliance Team.</p> <p>We also identified some gaps in the records relating to Employment Status Checks that should be reviewed and additional data entered to ensure that records are clear and complete.</p>

Since February 2023 we have continued to provide advice on risk and controls for the Finest System Replcement.

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1. FINEST System Replacement

Grant Claims Certified Since June 2023

Grant Name	Audit Report	
	Grant Certification	Audit Comment – if applicable
HoTSW – Local Growth Fund (including FE Digital Accelerator)	Certified	Grant Certification without amendment.
HoTSW – Getting Building Fund – Devon Work Hubs		
LEP – Digital Skills Series		
HoTSW – Getting Building Fund – ZEBCAT2		
Home Upgrade Grant (HUG 2)		
Digital Business Utilisation Service (DBUS Contract)		
Active Devon (including Engaging Rural Macros)		
Schools Conditions Allocations		
Supported Families Programme April	Certified	Significant & Sustained Progress: Potential claim 7; Tested 1 ; Failed 0: Claim made 7 families = £5,600.
Supported Families Programme May	Certified	Significant & Sustained Progress: Potential claim 26; Tested 3 ; Failed 1: Claim made 25 families = £20,000
Supported Families Programme June	Certified	Significant & Sustained Progress: Potential claim 43; Tested 4 ; Failed 0: Claim made 43 families = £34,400.
Supported Families Programme July	Certified	Sustained Progress. Potential claim 63; tested 9; failed 1; claim made 62 families = £49,600.

Appendix 2 - Definitions

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control are inadequate to effectively manage risk to the achievement of strategic and operational objectives.

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Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon 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 tony.d.rose@devon.gov.uk

Definition of Recommendation Priority

High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.
Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.

Direction of Travel Indicators

Indicator	Definitions
	No Progress has been made. The action plan is not being progressed at this time; actions remain outstanding.
	Progress has been made but further work is required. The action plan is being progressed though some actions are outside of agreed timescales or have stalled.
	Good Progress has/is being made. Good Progress has continued.

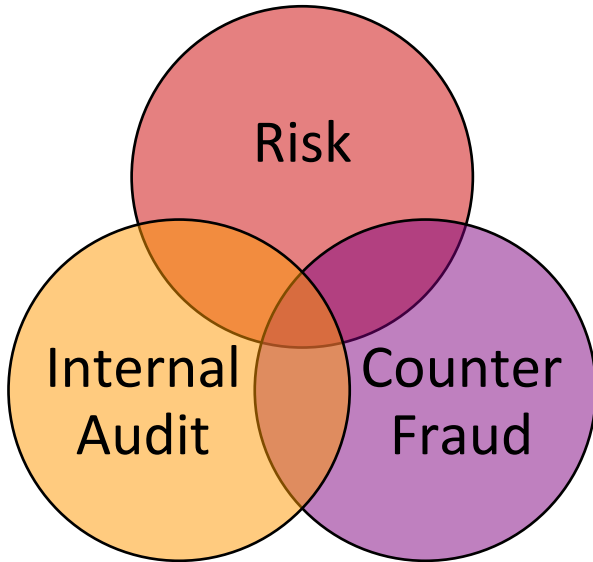
Appendix 3 – Audit Authority

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Our Vision

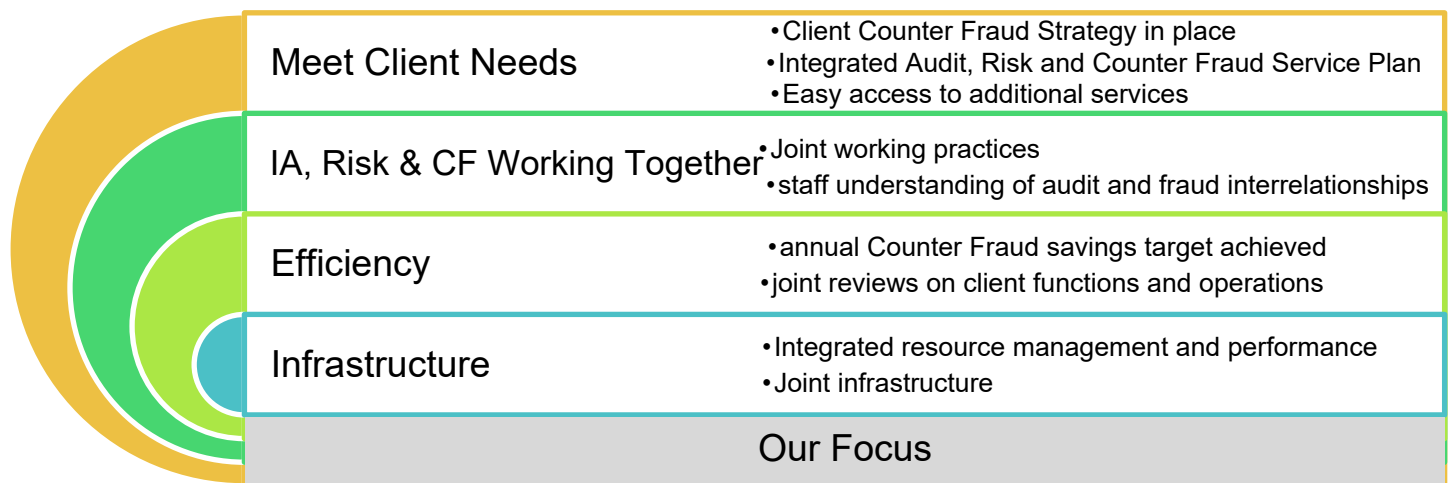
To be a leading provider of internal audit, counter fraud, risk management and other assurance services to public and not-for-profit organisations in the South West and beyond.



Operational delivery

- CFT to co-ordinate / undertake irregularities work coming through the audit plan
- Potential irregularities are triaged to fraud or audit for review
- Proactive fraud work e.g. NFI, developing delivery plan at client level
- Investigation work to be completed jointly (where appropriate) to progress possible fraud review and strengthen internal control frameworks
- Audit scoping to include counter fraud input
- Three-way liaison confirming risk and control
- Integrated reporting to be delivered on a case basis

Our Goals



Client Services

Counter Fraud Strategy with each client
Regular client liaison Mtgs.
POC access to additional integrated services
CF Service plan with each client for both pro-active and re-active services
Joint Partner CF work e.g. SPD
Client training on Fraud Awareness

IA, Risk & CF Working Together

Joint Working Practices
Joint scoping of audit and Irregs
CF Risk Assessment Review - CIFAS
Joint IA, Risk & CF plan
Pro-active **Prevention** work
Pro-active **Detection** work
Effective **Investigation**
NFI work co-ordinated by CFT

Efficiency

Restructure of PCC Team work plan (releasing resources)
Joint working practices
Single Point of Contact for Fraud and Irregs

Infrastrucrture

Budget - Costcentre focused
Laptops for CFT
ICT Platform & common network access
Data Sharing Agreements updated
Terms and Conditions review

2023/24 Risk Management Update

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee: -

- i. review the most recent risk position for 2023/24 including notable changes, and via the Power BI Dashboard.
- ii. review the updates to the risk management process as supported by Devon Audit Partnership.

The attached report sets out the risk position of the Council, updates on changes to risk management arrangements during 2023/24 to date 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.

The report is aimed at informing members of areas of High risk and notable changes that may need further review, as well as providing the required assurance that Risk Management activity is live and supporting the Council in its activities, as well as meeting its statutory requirement for effective risk management.

As requested by Members, information relating to risk mitigation is included within the report.

Appendix A – Extract of the current highest risks the council faces (Based on Current Risk Score).

Appendix B – DCC Impact Scoring Guide.

Appendix C – Power BI Extract.

Strategic Plan: There are no Strategic Plan issues associated with this report. A future development will include reporting on risk linked to the Council's Strategic Priorities.

Financial Considerations: There are no direct Financial Considerations issues associated with this report, however Financial Considerations are taken into consideration in risk assessment and scoring.

Legal Considerations: There are no specific Legal Considerations or issues associated with this report, however Legal Considerations may be taken into consideration in risk assessment and scoring.

Environmental Impact Considerations (Including Climate Change): There are no specific Environmental Impact Considerations or issues associated with this report, however Environmental Considerations may be taken into consideration in risk assessment and scoring.

Agenda Item 10

Equality Considerations: There are no specific Equality Considerations associated with this report, however Equality Considerations may be taken into consideration in risk assessment and scoring.

Risk Management Considerations: This report supports the Councils Risk Management process and is integral to an overall integrated assurance approach.

Public Health Impact: There is no specific impact on Public Health in connection with this report. Public Health risks may be included in this report.

Summary/Conclusions/Reasons for Recommendations: Reasons for noting the report include recognised best practice and good Governance.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All
Local Government Act 1972

Contact for Enquiries: Tony Rose
Tel No: (01392) 385488 Larkbeare House

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
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Nil

There are no equality issues associated with this report



Risk Management

Update Report

September 2023



Audit Committee



Introduction and purpose of this report

There has been much change to the Senior leadership Team across the Council, and this has come with an increased awareness of risk and an even more positive approach to risk management. Services are more engaged than they have been for many years, and this helps to support the identification and management of risks. Managing, identifying and mitigating risks is more important now than it ever has been, to increase the likelihood of success and to be more resilient to change and challenges.

Devon Audit Partnership (DAP) continues to support the Council in its vision to “manage potential opportunities and threats in achieving its objectives”.

This risk update serves as a comprehensive overview for the Audit Committee, providing insight into the current risk performance, current work and tasks, trends and noteworthy points or topics.

Risk in Numbers.



The above graphic details the current risk information as of 23rd August 2023. Clearly our attention is on the risks that have the highest score, the 13 risks that has the ‘Very High’ rating are:

Children & Young People’s Future	High Needs Block
	Managing unit cost pressures
	Savings and cost management strategies
	Education and Learning: High Needs Block/DSG Deficit
	Demand for Children’s Services exceeds the financial provision
	Demand for Childrens Social Work
Integrated Adult’s Social Care	Failure of the Authority to meet its statutory obligations under The Deprivation of Liberty Safeguards (DoLS)
ICT	Corporate Services - Cyber Security
	Successful Cyber Attack
Finance & Public Value	Exeter Science Park (loan guarantee)
E&EH	Insufficient capacity of the High Needs Block to meet demand
	Education and Learning Services budget availability.
Public Health	Covid-19 Pandemic

Risk Update.

In recent months we have provided facilitation and support to the council’s service areas. We have paid special attention in the Finance and Public Value (F&PV), in which we have provided guidance in the following;

Budget Book Risks.

During 2022, the decision was made in collaboration with F&PV to introduce a specific risk area to respond to the challenge of budget goal achievement, tied with the pressures of the 'Cost-of-Living' crisis.

Currently, 67 risks sit under this risk area, the classification of these risks are detailed below;



The Risk Management (RM) team has been tasked with providing support to the Budget Management Group (BMG) to provide challenge and support around these risks. There is a desire from the leadership in F&PV risks should be regularly reviewed to respond to changes in the internal and external environment and to support the relevant officers in the achievement of goals.

The RM team now regularly attend the BMG meetings, to offer challenge and support to increase the overall accountability and increase the likelihood of success. There are future plans to support the regular 1-2-1 discussions with the accountancy team and relevant service area officers to utilise RM tools and processes to increase success.

Clearly, budgets are of high concern and present a very real risk, and therefore the council must mitigate these to reduce the potential severity and likelihood of them occurring, we are pleased to be engaged in this area.

Future Finance Project.

Another key area in F&PV is the project to support the replacement of its legacy finance system 'Finest'. The contract has now been signed with Unit 4 and the project can now proceed in the implementation of the new system.

Risk identification, analysis, mitigating, support and facilitation services have been provided for this project. Following a recent meeting with the Project Manager from Unit 4, she fed back on how pleased and impressed she was with the amount of work that had taken place on Risk Management, a positive for the project and RM Teams.

Work continues to ensure that the risks are captured and recording on the corporate risk register. The risk themes and stages are recorded as follows;

Failure of Project Control - The risk that the project does not adequately put in place the measures required to control the project to time, quality, and budget; this includes risks around adequate project resourcing to achieve tasks. Non-achievement of this goal could lead to Major consequence for the council.

Failure of Long Term Benefits - The risk that the system is not well implemented and as a result does not support the achievement of the long-term transformation in financial management that is desired; this includes risks around user acceptance of the system risk such that, while functionally adequate, the system is not accepted by all or some users leading to dissatisfaction and inefficient practice. The impact of this risk occurring could have a major impact on the council as its staff will not be able to utilise the new system correctly and morale will be impacted with those that are using the system.

Functional Failure - The risk that we lose control of our finances and are unable to account (pay or receive funds) or make financial transactions as per statutory duties. Without being able to pay our creditors and receive incoming funds could have Catastrophic consequences.

SEND Finance

We continue to attend weekly meetings supporting the response and management of SEND financial challenges with finance and children's services colleagues.

Business cases are in the process of being submitted to central government and on each case, risks have been identified and scored accordingly. We have provided support and facilitation to this project and will continue to provide these services with the new SEND Improvement Director and programme manager.

Changes in the risk picture;

Appendix A details the change in scoring (if applicable) to risks rating as 'Very high'.

CYPF 'High Needs Block' risk has increased by 14 points – this change was registered by the Head Accountant and service area lead in February 2023 to reflect the current position of the risk and the budget attached to it. Whilst the Head Accountant remains a key stakeholder in this risk, the service area manager holds overall responsibility of the mitigating controls.

CYPF: Managing unit cost pressures increased by 8 points – this change was registered by the Head Accountant and service area lead in February 2023 to reflect the current position of the risk and the budget attached to it. Whilst the Head Accountant remains a key stakeholder in this risk, the service area manager holds overall responsibility of the mitigating controls.

Education and Learning: High Needs Block/DSG Deficit increased by 8 – this change was registered by the Head Accountant and service area lead in February 2023 to reflect the current position of the risk and the budget attached to it. Whilst the Head Accountant remains a key stakeholder in this risk, the service area manager holds overall responsibility of the mitigating controls.

CYPF: Savings and cost management strategies increased by 12 points – this change was registered by the Head Accountant and service area lead in February 2023 to reflect the current position of the risk and the budget attached to it. Whilst the Head Accountant remains a key stakeholder in this risk, the service area manager holds overall responsibility of the mitigating controls.

The above risks are due for further review in September 2023, we expect the risk scoring to remain consistent or reduce as significant work has taken place across the Council to address the above risks, ensuring mitigating controls and actions are in place. Also, as mentioned above, collaboration with the relevant officers and managers (both in SEND and Finance) is taking place but increases in the risks are indicative of the impact on the council.

Other areas of focus:

IASC Peer Challenge.

The risk management team fed into the recent IASC Peer Challenge on 20th July 2023. The key points covered were;

- Risk management approach in directorate and corporately including to inform political and office decision making.
- Analysis of key risks facing adult social care and their mitigation.
- Use of risk in assurance e.g., to inform audit programme, change programme.
- What happens when risks become manifest?

Corporate Risk Management Group.

Each of the service areas at the council have a risk representative, referred to as a risk champion ([Risk Management - CRMG Membership.pdf - All Documents \(sharepoint.com\)](#)). We work closely alongside these officers to ensure the management of risk met according to the council's framework and policies.

We meet with these champions every quarter for one hour and think carefully about the content to ensure time is well spent. The Councils Audit committee Chair, Cllr Scott, attended the last session to share Member's thoughts and position on risk.

The council also benefits from our creation and chairing the Regional Risk Management Group. This group is made up of several risk experts from other public bodies across the South-West, including the Met Office, NHS, Police and others. This gives the team the opportunity to understand and identify cross cutting risk in the local and national context.

Horizon Scanning

The RM team continue to monitor the internal and external environment for upcoming potential risks and events that could significantly impact the council's ability to deliver its statutory services or achievement of its objectives.

We are exploring the overall impact and likelihood of 'Artificial Intelligence' on the council, we have reached out to our F&PV colleagues and delivered a training session and used the responses, questions, thoughts and comments to form part of our risk analysis going forward.

As part of looking forward, we are reviewing the 'National Risk Register' issued by central government, to ensure we have recognised the relevant risk to the council.

[2023 NATIONAL RISK REGISTER NRR.pdf \(publishing.service.gov.uk\)](#)

CIR Shortlisting – Risk Management Awards.

We are thrilled to share that Devon Audit Partnership have been shortlisted in the Public Sector Risk Management Award at the CIR Awards 2023. We are very proud of this and are looking forward to the announcement of the winners in November 2023.

Public Sector Risk Management Award

- Devon Audit Partnership
- Faithful+Gould & National Highways
- Greater Manchester Police & BlackBerry
- The Risk Management Specialism in Defence Equipment & Support (DE&S) - Ministry of Defence



Supporting Appendices

Appendix A – Extract of the current highest risks the council faces (Based on Current Risk Score).

Appendix B – DCC Impact Scoring Guide.

Appendix C – Power BI Extract.



Power BI Link; [All Risk Reports - Power BI](#)

Appendix A – The Highest Rated Risks Based on Current (Mitigated) Risk Score.

Risk Title	Description	Service area	Risk category	Current impact	Current likelihood	Current score	Risk owner	Accountable Officer	Change direction	Score change since last review
CYPF: High Needs Block	The significant risk that the High Needs Block spend does not return a balanced budget. The continued growth, in recent years, of EHC plans with no facility to reduce external demand has meant the DfE HNB grant has seen a significant overspend. The cost of educating pupils with complex educational and physical needs can also be significant and volatile. In particular the number of students remaining in Education post-16 is rising. The deliverability of a balanced budget requires providing early support so more children have their needs appropriately met in mainstream schools and successfully increasing capacity in our maintained special schools so we can disinvest from the more expensive independent sector. There is also a risk of more permanent exclusions and an increase in harder to admit children.	Children and Young People's Futures Education and Early Help Budget Book risks	Financial	5 : Catastrophic	6 : Almost certain	30 : Very high	Adrian Fox	Kellie Knott	↑	+14 (last reviewed in February 2023)
CYPF: Managing unit cost pressures	The spend on placements to support children in care in Devon has risen from 46% of total spend on Children's Social Care five years ago to 51% in 2021. The average weekly cost of residential placement has grown and is on average £4,800 per week compared with £3,100 over the same time. Local authorities are competing for limited places and the risk is that costs continue to escalate as a result.	Children and Young People's Futures Children's Social Care Budget Book risks	Financial	4 : Major	6 : Almost certain	24 : Very high	Karen Powlesland	Jassi Broadmeadow	↑	+8 (last reviewed in February 2023)
CYPF: Savings and cost management strategies	Ensuring each child is in the right place to meet their needs at the right time at the right place depends on market sufficiency and managing price and volume demand. Savings are predicated on the basis that the market is able to respond sufficiently and placements can be made close to home where appropriate and represent Best Value. Expanding access for families to a broader	Children and Young People's Futures Children's Social Care Budget Book risks	Financial	4 : Major	6 : Almost certain	24 : Very high	Karen Powlesland	Jassi Broadmeadow	↑	+12 (last review February 2023)

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Appendix A – The Highest Rated Risks Based on Current (Mitigated) Risk Score.

	range of resources enabling them to tap into a wider network of support relies on the continuation of grant funding streams such as the Housing Support Fund, and access to community groups providing practical assistance and other support.									
Education and Learning: High Needs Block/DSG Deficit	The unmitigated risk of continuing to meet demand for EHC plans and independent/non-maintained sector placements would lead to topping out/cumulative deficit of £150 million by 22/23. The impact of mitigating this by stepping up early intervention and SEN Support would mean that children and young people's needs would be met earlier and locally. A significant number of young people would prepare for adulthood within their community with the development of the PFA pathway. The outcome would be a balanced budget of £138.9 million. This is our recovery plan agreed and scrutinised by DfE's safety valve intervention programme. The risks in relation to wider stakeholder engagement, parental confidence, joint work across education, health and social care, would be mitigated through collaborative working, and recruitment through a county wide drive.	Children and Young People's Futures Education and Early Help	Financial	4 : Major	6 : Almost certain	24 : Very high	Kellie Knott	Stuart Collins		+8 (last reviewed February 2023)
OSL M1 Failure of the Authority to meet its statutory obligations under The Deprivation of Liberty Safeguards (DoLS)	Cause - 2014 Supreme Court judgement P v Cheshire West and Chester Council and P & Q v Surrey County Council" lowered the threshold for what amounts to a deprivation of liberty. Individuals who lack capacity in relation to their care, treatment and place of residence and are subject to continuous supervision and control, not free to leave their care setting and the care is imputable to the state, are deprived of their liberty. Event - Greater numbers of individuals likely to be experiencing a deprivation of their liberty than pre-Supreme Court ruling. Without assessment and authorisation under DoLS or applications to the Court those individuals are unlawfully deprived and not able to easily access safeguards such as Advocacy, regular review and independent oversight by specialist assessors and appeal to the Court. Impact - The Council fails to meet its statutory obligations regarding the application of The Deprivation of Liberty Safeguards (DoLS) and Community Deprivations of Liberty. As a result, individuals are put at unacceptable risk of Human Rights breaches, overly restrictive practices and a	Adult Care Operations and Health	Operational	4 : Major	6 : Almost certain	24 : Very high	Sandra Geary	Gary Patch		0

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Appendix A – The Highest Rated Risks Based on Current (Mitigated) Risk Score.

	lack of legal recourse to appeal to the Court of Protection. An inability to assess High Risk cases where the individual / family are objecting and cases which require recourse to the Court. Potential for high level fines / financial and reputational damage to the Organisation.									
Corporate Services-ICT	Nationally the threat of Cyber Security is a growing risk, and the County Council must ensure its staff and Members have sufficient skills to operate technology in a secure way to protect the data assets of the Council.	Budget Book risks IT Strategic Commissioning	Financial	4 : Major	6 : Almost certain	24 : Very high	Risk to be re-assigned	Gary Dempster	↔	0
Exeter Science Park (loan guarantee)	The Science Park Innovation Centre Construction was built by Exeter Science Park Limited (ESPL). This was partially funded via a loan from the Local Enterprise Partnership. DCC have guaranteed 50% of the loan and interest, and there is a risk that this could be triggered. There remains in the balance sheet a provision of £1.8 million to cover the guarantee. This figure was based on the shortfall in the ESPL business plan. It is likely that part of this provision will be required. Financial liability risk to DCC as guarantor along with other stakeholders includes underwriting (46%) of one of the Science Park buildings.	Budget Book risks Economy, Enterprise and Skills	Financial	4 : Major	6 : Almost certain	24 : Very high	Keri Denton	Steve Brown	↔	0
Covid-19 Pandemic	The Covid-19 pandemic impacts the delivery of DCC Services including in relation to staff members being unable to perform their usual functions for reasons relating to illness, self-isolation, impact of lock-down restrictions, caring responsibilities, and Council offices being closed - resulting in the functions of the Council and services provided to the Community being reduced. DCC Services may also be impacted by key partners and suppliers being unable to fulfil their roles.	Council-wide Public Health	Operational	4 : Major	6 : Almost certain	24 : Very high	Steve Brown	Leadership Group 8	↔	0
Demand for Children's Services exceeds the financial provision	Due to an increase in demand for the different services provided by the Children's Services teams, the budget set for the current financial year may be exceeded, resulting in a potential reduction of service delivery or the possibility of a failure to deliver statutory responsibilities.	Children's Social Care	Strategic	4 : Major	6 : Almost certain	24 : Very high	Karen Powlesland	Stuart Collins	↔	0
Insufficient capacity of the High Needs Block to meet demand	Due to the ongoing HNB deficit budget and changes in the SEND Code of Practice including age range, Element 3 payments to maintained schools, cost of independent sector places and increases in capacity for Special Schools, funding remains insufficient to meet the demand to deliver the statutory requirements, resulting in reduced SEND outcomes for 0-25,	Education and Early Help	Operational	4 : Major	6 : Almost certain	24 : Very high	Kellie Knott	Stuart Collins	↔	0

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Appendix A – The Highest Rated Risks Based on Current (Mitigated) Risk Score.

	reputational damage including fault found by Ombudsman, and legal challenges through SENDIST.									
BI21 – Successful Cyber Attack	Successful Cyber Attack on the Authority	IT Strategic Commissioning	Operational	4 : Major	6 : Almost certain	24 : Very high	Risk to be re-assigned	Gary Dempster	↔	0
SC1: Education and Learning Services budget availability .	Continued growth in SEN number leading to increased costs for home to school transport (which is a statutory duty). This could lead to a budget overspend which would need to be absorbed within the Education and Learning Core budgets, reducing the ability to deliver other services and initiatives.	Education and Early Help	Operational	4 : Major	6 : Almost certain	24 : Very high	Damien Jones	Stuart Collins	↔	0
Demand for Children& #8217;s Social Work	Demand for statutory children's social work and cost of social care increases and cannot be met within available resources.	Children's Social Care	Operational	4 : Major	6 : Almost certain	24 : Very high	Jassi Broadmeadow	Stuart Collins	↔	0

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.

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.



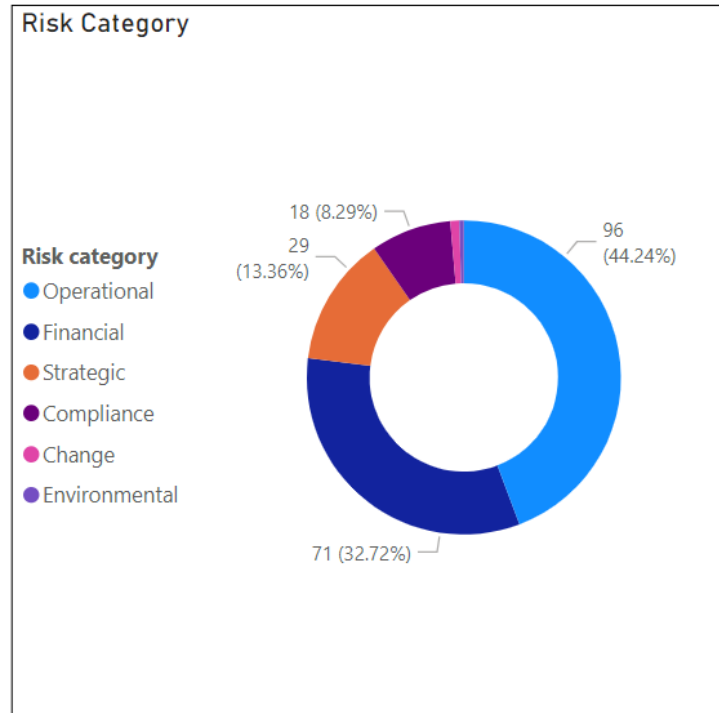
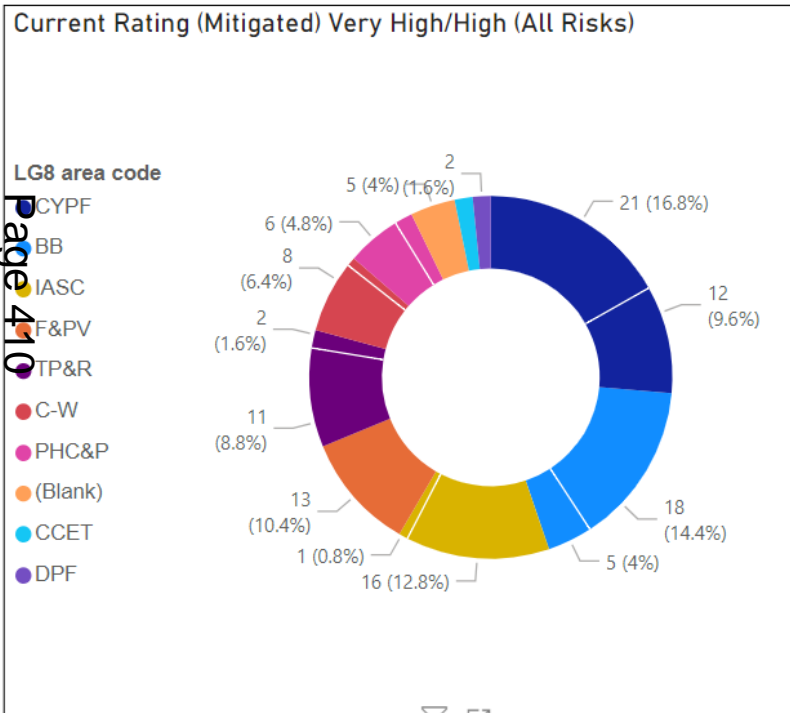
Total Risks
230

Total V/High Risks
13

Total High Risks
58

Total Medium Risks
52

Total Low Risks
104



Risk Title	Current Rating	Risk Owner
A1: Accounting	Low	Mark Gayler
Adopt South West Partnership working arrangements	Medium	Kath Drescher
Aligning Strategic Partnerships and Priorities around safeguarding/community safety	Low	Julie Richards
All Corporate Services- Corporate Services	High	Matthew Thorpe
Animal Health Disease Control	High	Dolores Riordan
B3: Brunel Pension Partnership	Medium	Charlotte Thompson
Being able to meet our statutory responsibility for ensuring that enough AMHPs are available to carry out their roles under the Mental Health Act	High	Jacqueline Sims
BI02 – Lack of “Volunteers” to run a Rest Centre	Medium	Liam Jennings
BI06 – Data Protection breaches	High	Martin Lawrence
BI07 – Call answering priority during an	Medium	Helen Wyatt

Please note that the data contained within the above pdf extract is representational. Please view the Power BI link for full risk information. The Power BI dashboard is subject to update including to reflect DCC Structure changes.

Counter Fraud Update Report September 2023

Report of the Director of Finance and Public Value

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

Recommendation: that the Committee: -

- i. Note the update in connection with Fraud Prevention and Detection in DCC.

The attached report sets out the Counter Fraud work being undertaken on behalf of and by Devon County Council and supports the Councils ongoing commitment as outlined in its Anti-Fraud Bribery and Corruption Policy / Strategy and Response Plan.

The report is aimed at informing members of ongoing activity in the fight against fraud, to protect the public purse and retain public confidence that the Council recognises the harm that fraud can cause in the community and that it is protecting itself and its residents from fraud.

Strategic Plan: There are no Strategic Plan issues associated with this report.

Financial Considerations: There are no direct Financial Considerations issues associated with this report.

Legal Consideration: There are no specific Legal Considerations or issues associated with this report.

Environmental Impact Considerations (Including Climate Change): There are no specific Environmental Impact Considerations or issues associated with this report.

Equality Considerations: There are no specific Equality Considerations associated with this report

Risk Management Considerations: This report supports the Councils Risk Management process and is integral to an overall integrated assurance approach.

Public Health Impact: There is no specific impact on Public Health in connection with this report.

Summary/Conclusions/Reasons for Recommendations: Reasons for noting the report, include showing compliance with Anti-Fraud Bribery and Corruption Policy, and recognised best practice in line with good Governance

Chief Officer / Head of Service Angie Sinclair
Contact for Enquiries: Tony Rose Head of Devon Audit Partnership
Tel No: (01392) 383000 Larkbeare House



Devon County Council

Devon Audit Partnership

Counter Fraud Update



Audit Committee September 2023

1. Introduction

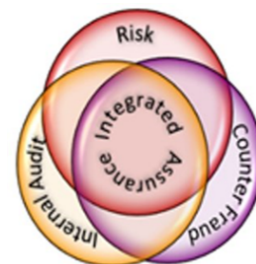
- 1.1 The Counter Fraud Services Team within [Devon Audit Partnership](#) (DAP) continues to support and facilitate the development of the Council's Counter Fraud processes and capability to improve its resilience to fraud and related offences.
- 1.2 The ongoing work will assist all Council staff, management, and members in identifying fraud and the risks associated with it. The aim is to ultimately provide the highest level of assurance possible utilising a joined-up service in association with our colleagues involved in Audit, Risk Management, and the Council itself to minimise fraud loss to the lowest level possible.
- 1.3 Audit Committee members requested regular updates on the Council's Counter Fraud activity to improve accountability; this report aims to meet this requirement and that required under the Anti-Fraud, Bribery and Corruption Policy and the accompanying Strategy and Response Plan.

2. Embedding the Anti - Fraud Culture.

- 2.1 The [Anti-Fraud Bribery and Corruption Policy](#) and the accompanying [Anti-Fraud Bribery and Corruption Strategy and Response Plan](#) are available to view and represent the Council's commitment to fighting fraud and corruption and ensuring that it continues to build resilience in protecting the public purse.
- 2.2 These documents give clear guidance and ensure that all staff and members and the public can report fraud and irregularity suspicions directly to counter fraud specialists retained within the assurance services provided by the Partnership. The team have direct contacts with the Police and other law and enforcement agencies, which in turn ensures that all allegations are taken seriously and dealt with appropriately.
- 2.3 As part of the integrated approach to fighting fraud across the region, the Counter Fraud Services team are looking to rationalise the Policy's and Strategies of all the DAP Partners and clients across the piece. This will allow for a consistent and robust response to fraud across Devon and beyond.
- 2.4 The Policy and the accompanying Strategy and Response plan have been submitted for review and note. No substantial changes of note.
- 2.5 The Government is creating a new criminal offence of "[failure to prevent fraud](#)". This has not yet been passed. The Policy and Strategy will be updated as and when this legislation comes into force. Further explanation is given at point 7 of this document.

3. Integration of Counter Fraud, Risk Management, and Internal Audit.

- 3.1 The integration between these assurance arms continues to evolve and strengthen. Regular meetings between the relevant managers and staff ensure that cross collaboration is growing and improving so that auditors are aware of fraud and risk issues (See Appendix 1).
- 3.2 Assurance meetings between Devon Audit Partnership and the Director of Finance and Public Value (Section 151 Officer), along with members of the Finance and Public Value Leadership Team ensure that direction, clarity and flexibility continue to improve.
- 3.3 The team continues to support our colleagues in Audit and Adults and Children's Social Care teams, specifically looking at the risks linked to Cyber Enabled frauds that may affect some of the most vulnerable members of our society. We are committed to further increasing awareness and



supporting the most vulnerable in society who are more at risk of falling victim to fraudsters. DAP is working with its colleagues in the NHS and Audit South West closely to understand and reduce fraud risks within pre-paid accounts funded care plans. More information can be obtained via the [Action Fraud website](#) on fraud affecting the most vulnerable.

3.4 We are currently networking with all the Devon District / Borough Councils to improve overall fraud resilience in Devon. We are also obtaining a mutual support and knowledge exchange with our counterparts in Cornwall County Council and the Local NHS Trusts. The West of England Fraud Group has now been revived, which involves Councils across the region looking at Fraud, Risk and Audit issues which affect us all. Resilience and overall assurance are improved by the sharing awareness and knowledge, joining with others increases confidence in decision making and the Team will continue to look for new partners and agencies to further this end.

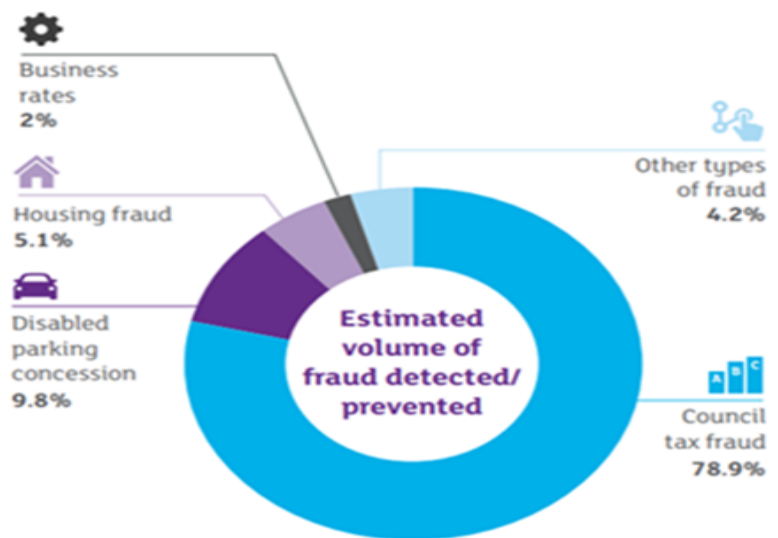
4. National Fraud Initiative

4.1 The [National Fraud Initiative](#) (NFI) is an exercise run and reported on by the [Cabinet Office](#) that matches electronic data within and between public and private sector bodies to prevent and detect fraud and error.



4.2 Devon Audit Partnership acts as the point of contact between the Cabinet Office and the Council in matters relating to the National Fraud Initiative, this being a mandatory Biannual exercise in fraud prevention and detection.

4.3 The next cycle of the NFI National Exercises has started. The previous exercise resulted in changes in entitlement which have resulted in an (estimated) total of **£1,451,893.86** in potential savings across the Council.



4.4 A total of 18,204 matches have been returned with 14,278 being considered as key matches, many of these matches will risk scored to assist in the resolution of the records. Low grade matches may only require sample testing, to give assurance.

At the time of writing this report the following matches have been dealt with.

- Concessionary Travel Passes - all matches completed totalling 1487 with 630 passes cancelled. The Cabinet Office saving figure attributed to this area in total is £19,530.00.
- Payroll – all 18 matches reviewed, 16 closed as already known, 2 under further review.
- Parking Permits – all 38 matches reviewed, 28 cleared as already known, 10 under further review.
- VAT potentially overpaid – all 361 matches reviewed and all cleared as no issue and accurate.
- Creditors – all 698 matches have been cleared as no issue and accurate.
- Pensions – all 497 matches have reviewed and 496 cleared as no issue, only 1 match remains open for further investigation.
- Action continues in other areas and will be included in future updates to the Committee and further savings figures are expected.

4.5 Devon Audit Partnership will support and encourage completion of the NFI returns and results

will be reported to the Audit Committee in the regular Counter Fraud Updates in future.

5. Investigations and other ongoing work

5.1 The team has highlighted and is heavily involved in assisting DCC with setting up, managing, and completing an exercise which allows participating Councils to identify instances of the incorrect application of Single Person Discounts, (SPD) related to Council Tax across Devon with all Councils who agree to participate. Most Councils will have been involved in this type of exercise in the past, however in this instance we are looking to involve all Districts and Boroughs in the same exercise to maximise Council Tax accuracy and correct billing across the County.

All Districts and Boroughs have submitted a point of contact to enable this exercise to progress and all Councils have been approached by the third-party agent with a view to completing this exercise within twelve months.

Three Local Authorities have now signed contracts to undertake the exercise over the next 3 months with a further Council committed to undertaking the exercise in April 2024. Two further Councils have a contract under review with their own legal teams and two have yet to fully commit. All Councils have been encouraged to participate fully to ensure that the correct level of Council Tax is accurately billed and collected appropriately.

5.2 We continue to support service areas that require data analysis and monitoring of transactions to act as early warning of impending cyber-attacks.

5.3 The DAP Counter Fraud Team are looking to support the Traffic Management Team in the enforcement process around Blue Badge misuse. A plan of action has been drafted and once agreed the Chair of Audit and Governance Committee will be appraised of the proposed action and any publicity sought to support the action.

5.4 Regular reports and updates from varying sources such as the [National Anti-Fraud Network](#) (NAFN) and the [National Cyber Security Centre](#) (NCSC) are circulated across the Council by the Counter Fraud Services team to ensure knowledge and awareness are kept at levels suitable for the protection of the public purse and the public themselves.

6. Counter Fraud 2023/24

6.1 During 2022/23 we undertook a review of the DCC strategy and approach, for 2023/24 we proposed the following plan.

- Policy and Strategy – Review due in August 2023 **Completed, awaiting adoption at Committee.**
- An increase in the use of data analysis to highlight and resolve potential high risk fraud threat areas. **This work has started and will continue.**
- Focused reviews – Blue Badge operation, Pensions, (using data analysis), other loss avoidance / revenue maximisation initiatives, such as the current Single Person Discount review exercise across Devon. **Ongoing see above 5.3**
- Integration with Audit Plan Work - Reducing fraud risk in systems (key areas). **Ongoing**
- Assurance on corporate risk and support for NFI. **Ongoing**
- Investigation of potentially fraudulent activity. **Ongoing**
- Awareness – Creation of a proactive publicity campaign for Counter Fraud. **The Blue Badge enforcement action days proposed will start the process.**
- Training – Ensure that training is available and up to date for Staff, Members and beyond. **Ongoing**

7. Other fraud related updates

- 7.1 The Government is intending to create a new criminal offence of [failure to prevent fraud](#). “Under the new offence, an organisation will be liable where a specified fraud offence is committed by an employee or agent, for the organisation’s benefit, and the organisation did not have reasonable fraud prevention procedures in place. It does not need to be demonstrated that company bosses ordered or knew about the fraud.
It is envisioned that this will discourage organisations from turning a blind eye to fraud by employees which may benefit them. The offence will encourage more companies to implement or improve prevention procedures, driving a major shift in corporate culture to help reduce fraud.”
- 7.2 The Counter Fraud Services Manager is liaising with national bodies and legal representatives and it is felt that this offence will on the face of it apply to Devon County Council as “The offence applies to all large bodies corporate and partnerships. This means that in addition to businesses, large not-for-profit organisations such as charities are also in scope, as well as incorporated public bodies. The offence applies to all sectors. However, to ensure burdens on business are proportionate, only large organisations are in scope – defined (using the standard Companies Act 2006 definition) as organisations meeting two out of three of the following criteria: more than 250 employees, more than £36 million turnover and more than £18 million in total assets. The impact of the offence will be kept under review and the threshold at which companies are excluded can be amended in future through secondary legislation if necessary.”
- 7.3 This will also likely affect any wholly owned subsidiary and any arm’s length managed companies that the Council holds.
- 7.4 The offence will clearly be similar to that brought forward under the Section 7 of the Bribery Act 2010 in that it will be crucial for organisations to show that they have ‘adequate procedures’ in place to prevent the offence being committed.
- 7.5 The recent ‘Counter Fraud End of Year Report’ and the ‘Counter Fraud Resilience and Best Practice Checklist’ contained within the document, duly noted by this committee in June of this year, will go some way in providing the Council with assurance that they already have robust procedures in place. DAP will continue to support the Council to ensure that they comply fully with the ‘adequate procedure’ requirements of this legislation as and when it is becoming clearer what is required.

8. Conclusion

- 8.1 Fraud attacks the very foundations of society and that of any fair and equitable system of support for those who need Devon County Councils services the most. All indicators show that as finances become more difficult, individuals make decisions that they would otherwise potentially not make under other circumstances.
- 8.2 Devon County Council’s continues to show that it is committed to improving its assurance position in respect of its fight against fraud and it has never been more important to minimise losses to fraud in order to protect Council Services and those they serve.
- 8.3 We will continue to assist the Council in building stronger defences and protection against fraud to ensure that every £ of public spending goes on those who legitimately require it, when they need it and that those who would defraud the system are dealt with appropriately and robustly.

Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, North Devon, Torridge, South Hams and West Devon councils. We aim to be recognised as a high-quality assurance service provider 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 tony.d.rose@devon.gov.uk.

Confidentiality and Disclosure Clause - 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.

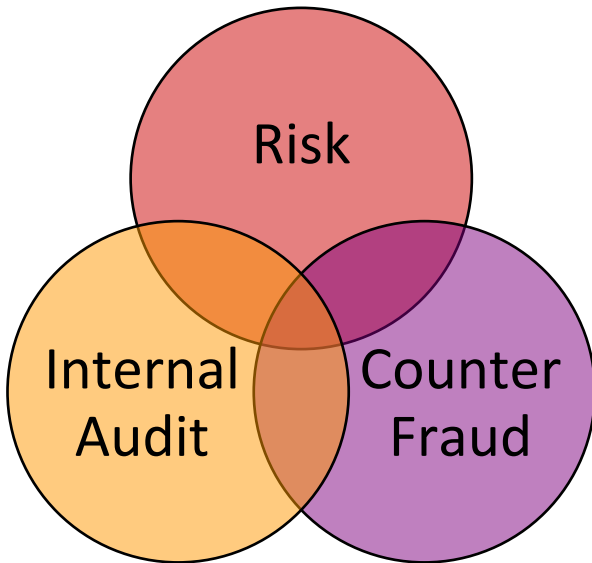
This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

(Fighting Fraud and Corruption Locally 2020)



Our Vision

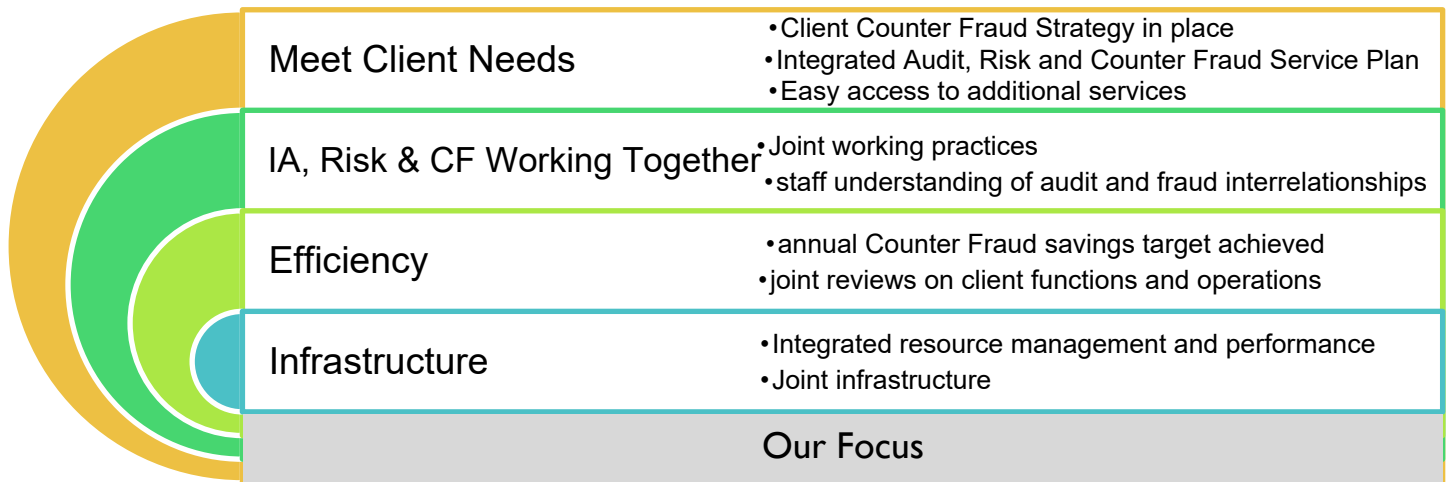
To be a leading provider of internal audit, counter fraud, risk management and other assurance services to public and not-for-profit organisations in the South West and beyond.



Operational delivery

- CFT to co-ordinate / undertake irregularities work coming through the audit plan
- Potential irregularities are triaged to fraud or audit for review
- Proactive fraud work e.g. NFI, developing delivery plan at client level
- Investigation work to be completed jointly (where appropriate) to progress possible fraud review and strengthen internal control frameworks
- Audit scoping to include counter fraud input
- Three-way liaison confirming risk and control
- Integrated reporting to be delivered on a case basis

Our Goals



Client Services

Counter Fraud Strategy with each client
 Regular client liaison Mtgs.
 POC access to additional integrated services
 CF Service plan with each client for both pro-active and re-active services
 Joint Partner CF work e.g. SPD
 Client training on Fraud Awareness

IA, Risk & CF Working Together

Joint Working Practices
 Joint scoping of audit and Irregs
 CF Risk Assessment Review - CIFAS
 Joint IA, Risk & CF plan
 Pro-active **Prevention** work
 Pro-active **Detection** work
 Effective **Investigation**
 NFI work co-ordinated by CFT

Efficiency

Restructure of PCC Team work plan (releasing resources)
 Joint working practices
 Single Point of Contact for Fraud and Irregs

Infrastructure

Budget - Costcentre focused
 Laptops for CFT
 ICT Platform & common network access
 Data Sharing Agreements updated
 Terms and Conditions review

