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To: The Chair and Members of the Audit Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 20 February 2024

Contact: Wendy Simpson, 01392 384383
Email: wendy.simpson@devon.gov.uk

AUDIT COMMITTEE

Wednesday, 28th February, 2024

A meeting of the Audit Committee is to be held on the above date at 2.15 pm in the 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 27 November 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 Devon County Council - Audit Findings 2022/23 (Pages 1 - 52)

Report of the Director of Finance and Public Value and the External Auditor, Grant Thornton (DFP/24/35), attached.

5 Devon Pension Fund - Audit Findings 2022/23 (Pages 53 - 86)

Report of the Director of Finance and Public Value and the External Auditor, Grant Thornton (DFP/24/36), attached.

6 Statement of Accounts 2022/23 (Pages 87)

Report of the Director of Finance and Public Value (DFP/24/37), attached.

7 Auditor's Annual Report 2020/21 and 2021/22 (Pages 345 - 388)

Report of the Director of Finance and Public Value (DFP/24/38), attached.

8 Auditor's Annual Report 2022/23 (Pages 389 - 438)

Report of the Director of Finance and Public Value (DFP/24/39), attached.

9 SEND Update (Pages 439 - 446)

Report of the Director of Finance and Public Value and Director of Children & Young People's Futures (DFP/24/41), attached.

10 Draft Internal Audit & Counter Fraud Plan 2024/25 (Pages 447 - 460)

Report of the Director of Finance and Public Value (DPV/24/21), attached.

11 Internal Audit Update (Pages 461 - 486)

Report of the Director of Finance and Public Value (DFP/24/20), attached.

12 Risk Management Update (Pages 487 - 504)

Report of the Director of Finance and Public Value (DFP/24/22), attached.

13 Counter Fraud Update (Pages 505 - 516)

Report of the Director of Finance and Public Value (DFP/24/23), attached.

14 Future Meetings

Please use link below for County Council Calendar of Meetings:

Browse Meetings Audit Committee

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

None

MEETINGS INFORMATION AND NOTES FOR VISITORS

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Induction Loop available

DFP/24/35
Audit Committee
28 February 2024

Audit Findings Report 2022/23 for Devon County Council

Reports of the Director of Finance and Public Value and the External Auditor – Grant Thornton LLP

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

1) Recommendation

That the Audit Committee notes the attached Audit Findings Report 2022/23 for Devon County Council provided by Grant Thornton LLP.

2) Background / Introduction

The attached report, provided by the Council's external auditor, Grant Thornton LLP, sets out the findings arising from the audit of the Devon County Council financial statements for 2022/23 financial year. The report describes the work that the external auditor has undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee on 25 September 2023.

There are two recommendations to which management has provided responses as set out on pages 33 and 34.

There is one key amendment that has been made to the accounts which, whilst not material and therefore not a fundamental error, has been actioned by management to ensure consistency of reporting in prior and subsequent financial years.

3) Conclusion

It is pleasing to note that Grant Thornton LLP has indicated its intention to issue an unqualified opinion in respect of the 2022/23 financial statements.

Angie Sinclair
Director of Finance and Public Value
Electoral Divisions: All
Cabinet Member for Finance: Councillor Phil Twiss

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The Audit Findings for Devon County Council

Year ended 31 March 2023

16 February 2024

Contents

Your key Grant Thornton team members are:

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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 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.

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

Name: Peter Barber
For Grant Thornton UK LLP
16 February 2024

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon County Council Signature ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Page 5

Financial Statements

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

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

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

We commenced our post-statements audit in early September 2023 and as 16 February 2024 our audit is substantially complete. Our findings are summarised on pages 5 to 23.

Our work to date has identified one adjustment to the financial statements that has resulted in a £9.3m adjustment, reducing the deficit on the provision of services in the Council's Comprehensive Income and Expenditure Statement.

We have recommended a small number of other audit adjustments to improve the presentation of the financial statements as detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

The draft financial statements were submitted for audit in line with the agreed national timetable and were supported by good quality working papers. Generally, we received good cooperation from Finance officers at the Council, however there were instances where we experienced delays in receiving sample evidence and query responses, resulting in the audit process taking longer than we would expect. We would like to put on record our appreciation for this support throughout the audit process.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix G] or material changes to the financial statements.

Subject to completing our remaining audit procedures set out on page 5, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on the 28 February 2024.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified. Our work on the Council's value for money (VFM) arrangements is now complete. The outcome of our VFM work is reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR) to be presented to the Audit Committee on 28 February 2024.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified two significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during the vast majority of the audit. However, resourcing constraints within the Council, resulted in delays in receiving some of the requested audit evidence. At the time of drafting this report our key contact, the Head Accountant had been signed off for 6 weeks (anticipated return in March 2024). We have had good cooperation with finance officers during this period of absence to progress the final audit procedures.

Page 6

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to deliver the audit for 2022/23 and finalise the audits for 2020/21 and 2021/22. We recognise the resourcing constraints within the finance function of the Council, with the absence of key officers and the conflicting demands of managing the implementation of the new financial ledger.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Devon County Council has, since 2009 followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. The Council does not have an investment property portfolio.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 25 September 2023.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 28 February 2024, as detailed in Appendix G. These outstanding items include:

- Conclusion of our closing audit procedures including final quality review checks;
- review of the final set of financial statements and reviewing amendments, and
- receipt of management representation letter.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

During the course of the audit both your finance team and our audit team faced audit challenges again this year, due to resourcing constraints within the Council. This resulted in more audit resource being required to manage evidence requests and chase responses, with a greater degree of input than we would expect. Delays in receiving evidence and query responses from a small number of officers reduced the efficiency of the audit and delayed audit completion.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 25 September 2023. We set out in this table our determination of materiality for Devon County Council.

	Council 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.

2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Improper revenue recognition -The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at 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.	No changes to our assessment reported in the audit plan were made during the course of our audit. We consider our rebuttal of revenue recognition to remain appropriate.
Risk of fraud related to expenditure recognition - Completeness of non-pay operating expenditure 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 Council 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.	No changes to our assessment reported in the audit plan were made during the course of our audit. We consider our rebuttal of expenditure recognition to remain appropriate.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls	In response to this risk, we have: - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and are testing unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. In 2020/21 and 2021/22, we reported that we had identified a significant control weakness regarding the processes in place for some journals with a value above £200k. Direct input journals into the system that are in excess of this threshold require authorisation from a head accountant before the transaction can be processed. This is an automated feature of the system. This authorisation is required for each screen of 10 lines of transactions. For journals where there are multiple lines of data, the Council has implemented alternative controls. Instead of the Head Accountant approving each journal on the system (which can be many pages), advance approval by email of the journal is required. Such journals are then posted on to the ledger using a separate '200' journal ID and a separate report of these journals is provided to the relevant Head Accountant. The relevant Head Accountant should approve a ****200 journal before it is input into the system. This is via e-mail, rather than an automated function within the system which means that the authorisation process could be bypassed. Any member of the finance team with journal access, can post a journal under a "200" ID. Although the journal does not record the username of the person inputting the journal, the finance systems manager can interrogate the system to identify the inputter, should the manual control be bypassed. During the year, the Head Accountant, Strategy and Compliance runs reports listing these journals that have already been processed. This list is circulated to service line head accountants requiring confirmation that they have approved the journals. This is a manual control rather than an automated one but is designed to identify any journals which have been input without prior authorisation. As we have previously reported, in our view, the manual nature of these controls represents a weakness in internal controls, as a result, we have assigned a higher risk to these journals and undertaken additional testing focussed on journals posted from these IDs. Our IT audit team have undertaken a review of the controls in place over journals in the Finest system as part of our audit of Devon Pension Fund, we noted that a number of users with superuser access rights were able to post journals. This represents a risk as these individuals have the ability to make unauthorised changes to the system. Our audit work including our review of journal entries has not identified any significant issues with regard to management override of controls. For all journals reviewed we concluded that they were appropriate transactions. As in previous years, we will however report the process to support the authorisation of the '200' journals as a control issue in our Audit Findings Report. The enhanced permissions finding will also be reported. Our work in respect of accounting estimates and key judgements is set out on pages 12 to 16.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary

Valuation of land and buildings
 	
The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from current 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.
 	
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.
 	
We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk.
	We have:
	• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.
	• evaluated the competence, capabilities and objectivity of the valuation expert.
	• written to the valuer to confirm the basis on which the valuation was carried out.
	• evaluated the reasonableness of the key assumptions made by the valuer in determining the valuations.
	• engaged our own valuation expert, Wilks Head and Eve, to provide commentary on:
	  ◦ 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.
	• tested revaluations made during the year to see if they have been input correctly to the Council's asset register.
	• evaluated 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.
	
	We challenged the underlying assumptions used by the valuer in determining his valuations. For specialised assets, this involved agreeing floor areas to site plans, agreeing build costs to national indices, including locality factors, reviewing the obsolescence and other costs included in the valuation process. For non specialised assets we agreed valuations to rental income records and challenged yield values in relation to nationally published data.
	
	Our audit findings are reported in the section on estimates and judgements on page 12.

Page 12

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered 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 reporting 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 in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

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 increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1.5% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

Page 13

Commentary

We have:

- updated 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.
- evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work.
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.
- undertaken 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.
- Obtained 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.

The actuary used estimated contribution and benefits paid figures to produce the report. Asset values used actual figures.

Our audit work has not identified any issues in respect of valuation of the pension fund liability.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £731m	Other land and buildings comprises (£643m) of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£88m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Norse Property Services Ltd to complete the valuation of properties as at 31 December 2022 on a five yearly cyclical basis, in order to further ensure that the current value of these assets is not materially different from the carrying value, the Council has undertaken additional annual valuations of its higher value assets. 85% of total assets were revalued during 2022/23. The methodology for valuing assets in the local authority context is determined by the Code and the requirements of guidance produced by the Royal Institute of Chartered Surveyors. The Council also engages independent, professionally qualified valuers to undertake the valuation of its assets. The use of professional valuers and the high percentage of assets revalued reduces the risk of management bias and estimation uncertainty. However, valuations can only be an estimate and as such are subject to inherent uncertainty. The Council has disclosed the potential impact of this uncertainty in note 5 to the accounts. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 December 2022. Management has applied relevant national indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the property values. The total year end valuation of land and buildings was £731m, a net decrease of £14m from 2021/22 (£745m).	We have carried out the following work in relation to this estimate: assessed management's expert to ensure they are suitably qualified and independent assessed the consistency of the estimate against national indices provided by our valuation expert. we agreed, on a sample basis, the underlying data used by valuer to supporting evidence e.g. floor plans and rental leases assessed the adequacy of the disclosure of the estimate in the financial statements; and engaged an auditor expert to further challenge underlying assumptions and terms of engagements with the valuer. As the valuation date for the majority of the assets is 31 December 2022, our testing assessed whether these valuations remained materially correct at the Council's year end of 31 March 2023. We concurred with the Council's view that they were not materially misstated. Our testing did identify that the assessment undertaken by management was at a higher level than we would expect as the indices used were not tailored to the specific asset types held by the Council. However we do note that the high value of the Council's asset base revalued during the year and that the majority of the asset base consists of specialised assets mitigates the risk of material misstatement.	**Light Purple**

Page 14

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £262m	The Council's total net pension liability at 31 March 2023 is £262m (PY £908m) comprising the Devon County Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £714m net actuarial gain during 2022/23.	We have carried out the following work in relation to this estimate: • assessed management's expert, Barnett Waddingham, to be competent, capable and objective; • performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2021/22 roll forward calculation carried out by the actuary and have no issues to note; • gained assurance over the reasonableness of the Council's share of Devon County Pension Fund pension assets; • reviewed the adequacy of disclosure of the estimate in the draft financial statements; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • Confirmed that unfunded liabilities had been appropriately treated; • sought and received assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; and • assessed the adequacy of disclosure of estimate in the financial statements.	**Light Purple**

Page 15

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Audit Comments	Assessment
Net pension liability – £262m		Blue

Page 16

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.8 - 4.85%	(Neither optimistic or prudent)
Pension increase rate	2.95%	2.65 – 2.95%	(Optimistic)
Salary growth	3.95%	3.65 – 3.95%	(Neither optimistic or prudent)
Life expectancy – Males currently aged 45/65	21.8/23.1	20.9-23.4 19.5-22.1	(Optimistic)
Life expectancy – Females currently aged 45/65	22.9/24.4	24.3-25.9 22.9-24.5	(Optimistic)

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £692m	The Council recognised £692 million in grants during the year. The recognition criteria for grants can be complex and is determined by their nature, purpose and whether any conditions requiring potential return of unspent monies. The Council is acting as the principal and credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement and the Council has received a number of grants that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the grantor.	In our testing, we have considered: • whether the Council is acting as the principal or agent which would determine whether the Council recognises the grant at all; • Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income; • Impact for grants received, whether the grant is specific or non- specific grant or whether it is a capital grant – which impacts on where the grant is presented in the CIES; and • The adequacy of disclosure of judgements in the financial statements. Our testing identified that a grant received from the Department for Transport in respect of the Local Transport Plan, had been incorrectly treated as a grant received in advance, rather than recognised in full in the year. This grant totalled £9.332 million. Management has agreed to amend the financial statements.	Light purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £14,154m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £13.8m, a net increase of £300k from 2021/22.	The Council's MRP policy was approved in February 2022 as part of the budget setting process. There have been no changes in the current year. We are satisfied that the Council has calculated MRP in line with statutory guidance. Government has consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.	Light Purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Finest	ITGC assessment (design and implementation effectiveness only)	🔴	🔴	🟡	🟢	Journals	Additional testing of 200 journals Review of segregation of duties postings
MRI Software Cloud Infrastructure	Review of service auditor report	🟢	🟢	🟢	🟢	Valuation of land and buildings assets	None

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: matters discussed with management

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

Significant matter	Commentary
Significant events or transactions that occurred during the year	None noted
Conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement.	None noted
Concerns about management's consultations with other accountants on accounting or auditing matters	None noted
Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	None noted
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	None noted
Prior year adjustments identified	The Council has revised the way it reports financial performance to members. As a result, the classifications of income and expenditure in the Comprehensive Income and Expenditure Statement has been amended to reflect this reporting. This has also affected the reporting in the Expenditure and funding Analysis and is appropriately reported in note 3 to the accounts. This is a reclassification rather than an error.
Other matters that are significant to the oversight of the financial reporting process.	None noted

2. Financial Statements: other communication requirements

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

Page 21

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers Specific representations have been requested from management in respect of the no liabilities existing for historic equal pay claims.

2. Financial Statements: other communication requirements

Page 22

Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bankers, investment holders and lenders. This permission was granted, and the requests were sent. Of these requests, all but one were returned with positive confirmation, and alternative procedures were performed in this case.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. As previously detailed, due to capacity issues at the Council, a number of our sample and evidence requests rook longer to be returned, which led to the audit requiring longer to complete than the expected timetable.

2. Financial Statements: other communication requirements

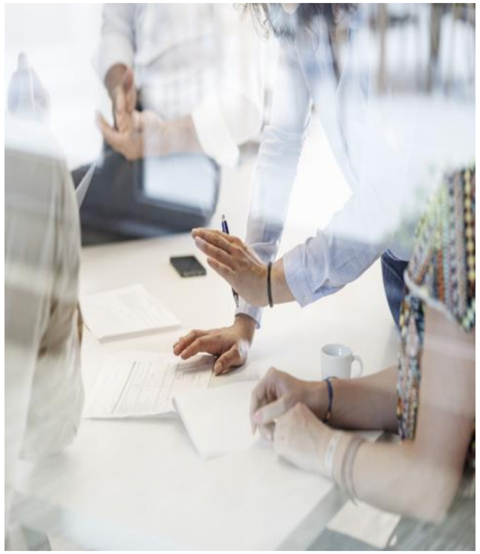
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Although the totals are in agreement, the outturn report provides a more detailed analysis of income and expenditure than the Comprehensive Income and Expenditure Statement (CIES)and the Expenditure and Funding Analysis (EFA) (Note 1). To ensure that segmental requirements are met, the disclosures in the CIES/EFA should be consistent with those reported internally for decision making purposes. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure Value For Money (VFM) and have reported a significant weaknesses. Our VFM findings are set out on pages 24 to 26 of this report any identify significant weaknesses in respect of financial sustainability and the provision of Children's Services given the continued "Inadequate" rating by Ofsted.



Page 24

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of Devon County Council in the audit report, as detailed in Appendix G.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Page 26

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified two significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix G.

Risk of significant weakness reported in our audit plan	Procedures undertaken	Conclusion	Outcome
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. **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	Review of budget monitoring reports, discussions with officers.	Indicators of financial stress include the following (but not limited to): • A forecast adverse outturn position in 2023/24 of some £4 million at month 8. • Increasing levels of demand leading to future costs pressures resulting in forecast savings of £134.7 million of savings to be delivered, to balance the Council's Medium Term Financial Strategy (MTFS) by 31st March 2027. • Reducing levels of reserves. The 2023/24 to 2026/27 MTFS forecasts that at March 2027 the general and earmarked reserves balances could reduce to £82 million. • Uncertainty around the funding of the Dedicated Schools Grant (DSG) deficit. The DSG forecast deficit balance is £162 million at the end of March 2024. If the statutory override is not extended nor financial support forthcoming from government to reduce the financial deficit, it will wipe out the Council's reserves of £107 million at 31 March 2024. • Any capitalisation directive, to part fund the DSG deficit, will attract a 1% premium on top of PWLB loan rates which will further impact on the Council's revenue budget. Such capitalisation directions normally also stipulation the need to make asset disposals to fund part of the capitalisation funding. • The Council already has relatively high levels of debt of some £510.828 million at 31 March 2023.	**Key Recommendation** The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing all members needs to ensure that there is a robust response to financial matters and that officers are supported in making the changes needed. Progress in delivering savings, transformation plans and the DSG Safety Value Plan should be tracked by Cabinet and Scrutiny Committees each month.

3. VFM: our procedures and conclusions

Risk of significant weakness reported in our audit plan	Procedures undertaken	Conclusion	Outcome
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 reviewed correspondence from Ofsted received following monitoring visits during the year.	Children's Services have been rated "Inadequate" by Ofsted. The Council continues to invest in the service and indications are that some progress is being made. As expected, it will be several years before all improvements are complete and the "Inadequate" rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area.	Key Recommendation The Council needs to enhanced its governance and oversight arrangements over Children's Services with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating.

5. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to 29 January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500 (£7,500 in 2021/22)	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 £7,500 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management	A management threat could be perceived as providing information to the Teacher's pension is the responsibility of management. The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will perform the engagement in line with the Reporting Accountant Guidance issued by the Teacher's Pension

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to 29 January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights Subscription	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 £6,250 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.
		Self review (because GT provides audit services	The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. The work will be undertaken by a team independent of the audit team
		Management	We are not taking any managerial responsibilities at the client. The scope of work does not include making decisions on behalf of management.

Page 31

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees

5. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council's board, senior management or staff.

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to 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	•	
Confirmation of independence and objectivity	•	•
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 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 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		•

Page 34

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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Page 35	**Inadequate control over privileged accounts within the Finest application** From the review of users with administrative privileges over the Finest application, we noted the following: There were 3 finance users with administrative privilege and one (1) auditor account from Devon County Council with admin access. There were 2 payroll and compliance users with administrative privileges, There were 2 users from the Devon County Audit Partnership who had left the organisation but had active accounts. There were 2 non-interactive generic accounts with IDs (ENTMGMT and DAUDIT) which have an active status, although they are not in use, and We identified one admin account with ID (SAG) which is used as a developer account by the vendor, Software AG. We have noted, logs are enabled and stored in the application on daily basis, although we inspected and noted no review has been performed by management within the audit assessment period to ensure that only appropriate activities are being carried out on the system. **Risk** A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to: • Unauthorised changes being made to system parameters; • Creation of unauthorised accounts; • Unauthorised updates to their own account privileges; and • Deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; and reviewing reconciliations of account balances or performing them independently] It is also recommended that unused accounts be disabled until when needed. **Management response** Management has completed a review of these access rights and either confirmed these remain appropriate to roles or amending access as appropriate. The only users with a combination of admin and finance privileges are the Finance Technology Team performing a systems admin function. Management is content that controls are sufficient and therefore this is a low risk. Unused accounts have been deactivated. The FINEST system is being replaced in summer 2024 and appropriate user controls and segregation of duties will be applied in the new system.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
● High	**Recognition of grant income** Our testing identified an error in the classification and recognition of grant income. In addition, the narrative supporting note 32 was not in accordance with the requirements of the Code. **Risk** There is a risk that grants are incorrectly classified impacting on the reported position.	Management should consider the purpose of the grant income and any provisions within the grant documentation to ensure that grants are allocated to the correct area of the financial statements and only grant income with valid conditions are treated as grants received in advance. **Management response** Although the reported error is not material management has agreed to adjust the accounts for this item to ensure consistency of reporting each financial year. This action is completed in the audited accounts for 2022/23.

Page 36

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and provide an update on actions.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**Journal authorisation** We 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.	The Council's financial ledger is almost 30 years old and its functionality is limited. The Council has manual controls (outside the system) for the authorisation of journals to reduce the risk of journal error. There is a requirement for Head Accountant approval by e-mail before the dataset journal above £200,000 is processed and a requirement for Head Accountants to confirm periodically from a system report of processed journals that they have approved those journals. These controls are in addition to day to day budget monitoring. The Council is implementing a new financial system from 2024/25 which should address the limitations of the current system. However, management believes that, in the meantime, manual controls are adequate to reduce the risk of significant journal error.
x	**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.	The Council's Finance team sent out two reminders to members who had not responded to the original request for related party disclosures in the accounts. If declarations were still not returned then a review of the Register of Interests was undertaken for those members to ensure completeness of the disclosure. This process was repeated for non responders in the current year.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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.	This issue was not identified in current year testing.

Page 38

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

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

Page 39

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Grants received in advance. A grant of £9.3 million from the Department of Transport for the Local Transport Plan was not subject to conditions requiring it to be treated as a grant received in advance with an impact on the capital grants unapplied reserve.	(9,332)	9,332	(9,332)	nil

D. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Expenditure and funding analysis – Note 1	The Council has included the outturn variance in respect of the Dedicated Schools Grant (DSG) Special Educational Needs and Disabilities (SEND) as a reconciling item at the foot of this note, to aid transparency. Therefore, the note is not fully compliant with the requirements of the Code. Further disclosure has been included to the note to explain the treatment. A similar issue also relates to the treatment of internal transfers within the note. We have recommended that the Council revisits the presentation of this note in the future.	X
Prior Period Adjustment – Note 3	The Council has restated its service lines to reflect a change in internal reporting during the year. This has been disclosed in note 3 on page 56. This is a reclassification only . The Council has set the impact out partially in a note but had not labelled the affected statements as restated. These are the CIES and EFA. The Council has amended and added further narrative to explain the change. The impact on net expenditure only has been set out, however we consider that the addition of further numerical data would reduce clarity and a narrative description is sufficient.	✓
Financial Instruments - Note 20	Two minor disclosure errors were identified. The risks note references for inflation risk that inflation is low and stable. This is not an accurate description of current events. There is no code requirement to include this note and the Council has been asked to revise or replace. The reference to the revised Treasury Management Policy is out of date. The Council as been asked to revise.	✓
Senior Officers Remuneration - Note 31	Three disclosed senior officers had opted out of the pension fund, but employers pension contributions were included within the senior officers note. This error was identified by Council officers and a revised note was received.	✓
Partnerships and related parties- Note 34	Accounting standards require that transactions should only be included if they are material to both parties and if a control relationship exists. The note includes transactions that do not meet the criteria for disclosure, however these are included by the Council for transparency.	X
Leases and contract hire – Note 36	The Council had disclosed two leases as being not recognised on balance sheet due to their immaterial values. These leases at £3.6 million and £1.6 million were above our trivial level. The Council has made further enquiries as to their nature and an amendment has been made to discount their present value. These leases are below trivial, and the note has been amended accordingly.	✓
Various	A small number of amendments were made to update disclosures.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
CCLA Investment The Council had an investment of £10m at 31 March 2023 in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA. The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.	Although this would affect the CIES, there is no impact on the General Fund as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years. This would also affect the disclosures relating to the Council's financial instruments. In 2022/23, there was a decrease in value of £1.8m which is immaterial. This issue was reported in prior years.				The investment is not material.

D. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Net defined benefit pensions liability Due to the timing of concluding the audit of the accounts, an updated triennial review was undertaken by the Pension Fund. This has resulted in an impact to the Council's net defined benefit liability. A revised IAS 19 report was obtained by the Council, and adjustments reflecting this were made to the financial statements. This resulted in a decrease to the net defined pension liability of £271,127 to £907,654 and a reduction in long term debtors relating to unfunded pension liabilities contribution from other bodies of £3,244k.		There is no impact on the current year financial statements.			

Page 42

E. Fees and non-audit services

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

Audit fees	Proposed fee
Scale fee	95,879
Additional audit procedures resulting from a reduced materiality	3,750
Use of expert	3,000
Value for Money audit – new NAO requirements	20,000
Increased audit requirements of revised ISA 315	5,000
Increased audit requirements of revised ISA 540	6,000
Enhanced audit procedures on journals testing	3,000
Additional requirements- Payroll change of circumstances (Information provided by the entity) IPE testing	500
Infrastructure	2,500
Increased FRC challenge	1,500
Local risk factors including additional work involved in managing and collating audit sample evidence	4,500
Total audit fees (excluding VAT)	**£145,629**

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers Pensions Scheme return	7,500	7,500
Non-Audit Related Services		
Subscription to CFO Insights	6,250	6,250
Total non-audit fees (excluding VAT)	**£13,750**	**£13.750**

The fees are reconciled to the financial statements below.

• fees per financial statements	£225,660
• Less – additional fees not accrued from 2020/21	(£7,500)
• Less - additional fees from 2021/22	(£70,838)
• Less fee for pension fund assurance letter recharged from the Pension Fund	(£1,693)
• total fees per above	£145,629

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

H. Draft Audit opinion

Our draft audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Devon County Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Devon County Council (the 'Authority') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Public Value's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Public Value's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Public Value's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Public Value with respect to going concern are described in the relevant sections of this report.

H. Draft Audit opinion

Other information

The other information comprises the information included in the Statement of Accounts and Annual Governance Statement other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. The Director of Finance and Public Value is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Director of Finance and Public Value

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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. The Director of Finance and Public Value is responsible for the preparation of the Statement of Accounts and Annual Governance Statement, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Public Value determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Public Value is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity

H. Draft Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972).

We enquired of management and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journal entries, particularly those not subject to automated authorisation processes and large and unusual journals;
- Significant estimates and judgements made in the production of the financial statements.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance and Public Value has in place to prevent and detect fraud;
- journal entry testing, with a focus on journals posted using the '200 ID', journals without a description, journals posted by senior managers, forward posted manual journals, journals relating to bodies disclosed as related parties, journals transfer revenue to capital codes, journals posted by officers with enhanced permissionsty6ru7y and journals relating to the dedicated schools grant;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings , and the defined benefit pensions liability valuations;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including areas impacted by management override of control, including journals and significant estimates. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

H. Draft Audit opinion

In assessing the potential risks of material misstatement, we obtained an understanding of:
- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except on 19 February 2024 we identified:

<u>Financial Sustainability:</u>

A significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to signs of financial stress that indicate a threat to the Council's financial sustainability in the medium term.

- The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing, all members needs to ensure that there is a robust response to financial matters and that officers are supported in making the changes needed. Progress in delivering savings, transformation plans and the DSG Safety Value Plan should be tracked by Cabinet and Scrutiny Committees each month.

<u>Improving economy efficiency and effectiveness – Childrens Services:</u>

A significant weakness in the Authority's arrangements for improving economy, efficiency and effectiveness. Children's Services have been rated "Inadequate" by Ofsted. The Council continues to invest in the service and indications are that some progress is being made. As expected, it will be several years before all improvements are complete and the "Inadequate" rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area.

- The Council needs to enhance its governance and oversight arrangements over Children's Services with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

H. Draft Audit opinion

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Devon County Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date

Grant Thornton

grantthornton.co.uk

DFP/24/36
Audit Committee
28 February 2024

Audit Findings Report 2022/23 for Devon Pension Fund

Reports of the Director of Finance and Public Value and the External Auditor – Grant Thornton LLP

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

1) Recommendation

That the Audit Committee notes the attached Audit Findings Report 2022/23 for Devon Pension Fund provided by Grant Thornton LLP.

2) Background / Introduction

The attached report, provided by the Council's external auditor, Grant Thornton LLP, sets out the findings arising from the audit of the Pension Fund financial statements for 2022/23 financial year. The report describes the work that the external auditor has undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee on 25 September 2023.

3) Conclusion

It is pleasing to note that Grant Thornton LLP has indicated its intention to issue an unqualified opinion in respect of the 2022/23 financial statements.

Angie Sinclair
Director of Finance and Public Value
Electoral Divisions: All
Cabinet Member for Finance: Councillor Phil Twiss

Contact for enquiries:
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Grant Thornton

The Audit Findings Report for Devon Pension Fund

Year ended 31 March 2023

26 January 2024

Contents

Your key Grant Thornton team members are:

Peter Barber
Key Audit Partner
E peter.a.barber@uk.gt.com

David Bray
Senior Manager
E david.bray@uk.gt.com

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.

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

Name: Peter Barber
For Grant Thornton UK LLP
Date: 26 January 2024

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Page 57

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	We commenced our post-statements audit in June 2023 and provided an update on the progress of the audit to the County Council's Audit Committee on 27 November 2023. At that time our audit was substantially complete. Our work has now been finalised and we expect to issue an unqualified opinion on the Pension Fund's financial statements for the year ended 31 March 2023 shortly after the Audit Committee meeting on 28 February 2024. Please see Appendix F for our proposed audit opinion. This year we undertook the audit remotely utilising a pooled pension team across our five Local Government Pension Fund audits in the South West. Our findings are summarised on pages 5 to 16. Changes to the national timetable brought forward the accounts production date from 31 July 2022 (in 2021/22) to 31 May 2023. The Pension Fund's draft financial statements were provided to us on 29 June 2023, in advance of our post-statements audit. The financial statements were prepared to a good standard and were supported by good quality working papers. Once again, the work required to discharge our responsibilities has increased. This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. We did not identify any material errors or adjustments to the financial statements and the small number of audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B and we are pleased to report that these have both been addressed. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements and we also expect to be in a position to issue this shortly after the Audit Committee meeting on 28 February 2024.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. Although the Devon Pension Fund 2022/23 audit was substantially complete in November 2023, we were unable to issue our opinion until we had completed our audit for the administering body, Devon County Council.

We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us to get to the current state of completion by this point.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26.

For the Pension Fund, the valuation was undertaken by Barnett Waddingham, and showed that the Fund had assets sufficient to cover 98% of the accrued liabilities as at 31 March 2022, which has increased from 91% at the 2019 valuation. The results of the latest triennial valuation are reflected in Note 22 to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 50 and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. Please see Appendix D for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

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

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

For Devon Pension Fund, the Audit Committee of Devon County Council fulfils the role of those charged with governance.

The Investment and Pension Fund Committee considers the draft financial statements and is part of the overall Member oversight process.

Audit approach

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

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

We have not had to alter our audit plan, as communicated to Devon County Council's Audit Committee on 25 September 2023.

Conclusion

Our audit work is complete and we anticipate issuing an unqualified audit opinion shortly after the Audit Committee meeting on 28 February 2024.

The final concluding tasks include:

- receipt of management representation letter – please see page 13; and
- final enquiries re subsequent events.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the course of our audit.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 25 September 2023. We set out in this table our determination of materiality for the Pension Fund.

Page 60

	Pension Fund Amount	Qualitative factors considered
Materiality for the financial statements (headline)	£66.4m	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. This is approximately 1.25% of your gross assets as at 31 March 2023.
Performance materiality	£46.4m	We have determined this using 70% of headline materiality. In prior years we have identified issues with regards to journals controls and also there were unadjusted errors with the 21/22 accounts which arose due to timing differences. In addition, the management and finance team remain stable.
Trivial matters	£3.3m	This is based on 5% of headline materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit Committee as 'Those Charged with Governance'.
Materiality for fund account	£24.5m	Due to the sensitivity of the fund account disclosures to those stakeholders who are admitted members of the Fund, we have determined a lower materiality threshold over the relevant fund account disclosures. This is approximately 10% of the fund's expenditure in the year to 31 March 2023.

2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified potentially unusual journals made during the year and the accounts production stage for appropriateness and corroboration • tested the potentially unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our approach to the testing of journals in 2022/23 reflected the control deficiencies reported in 2021/22. These issues have been satisfactorily addressed and there are no issues from our work that we wish to bring to the Audit Committee's attention Please also see our IT findings (page 12) and our follow-up of the prior year's recommendations (Appendix B, page 21).

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments 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. 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. 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. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk.	We have: • evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments to ensure that the requirements of the Code are met; • independently requested year-end confirmations from investment managers and custodians; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled 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 evaluated the competence, capabilities and objectivity of the valuation expert. Our work in this area is complete and there are no concerns we wish to bring to the Audit Committee's attention. However, we note the following: • Our testing did identify some trivial valuation differences within individual valuations, although these were often due to timing differences – for example, the investment's financial statements may be up to 31 December 2022 whereas the Pension Fund is reporting to 31 March 2023. • There was one investment (£16.6m) where audited financial statements were not available and so we reviewed the service auditor report. Overall, we are satisfied this investment is not materially misstated.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, 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 Pension Fund, mean that all forms of fraud are seen as unacceptable. We therefore did not consider this to be a significant risk for Devon Pension Fund when producing our audit plan. We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.
Improper expenditure recognition (rebutted)	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 Pension Fund because: • 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. We therefore did not consider this to be a significant risk for Devon Pension Fund when producing our audit plan. We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £687m	The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2023 at £687m (PY: £463m). These investments include UK and Overseas Unit Trusts (Venture Capital and Partnerships). These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. Note 19 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 3 investments. In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.	We have: • reviewed management's assessment and estimation process for level 3 investments and consider it to be robust; • assessed the estimates provided for level 3 investments and tested the validity of the assumptions; • assessed the adequacy of management's experts; • tested the appropriateness of the underlying information used to determine the estimate; • reviewed the consistency of the estimate against industry practice and previous audit work; • tested the reasonableness of the increase in the estimate; and • reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. As noted on page 8, our testing identified some trivial valuation differences within individual valuations, although these were often due to timing differences – for example, the investment's financial statements may be up to 31 December 2022 whereas the Pension Fund is reporting to 31 March 2023. There are no concerns we wish to bring to the Audit Committee's attention.	Light Purple

Page 64

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,564m	The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2023 at £4,564m (PY: £4,882m). These investments include pooled property funds and other managed funds. The investments are not directly traded on an open exchange / market as they may be restricted, for example, to Pension Funds that sit within the Brunel arrangement. The valuation of these investments is subjective, although valuations are based on observable inputs and so are not as subjective as Level 3 investments. Note 19 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 3 investments. In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.	We have: • reviewed management's assessment and the estimation process for level 2 investments and consider it to be robust; • assessed the estimates provided for level 2 investments and tested the validity of the assumptions; • assessed the adequacy of management's experts; • tested the appropriateness of the underlying information used to determine the estimate; • reviewed the consistency of the estimate against industry practice and previous audit work; • tested the reasonableness of the changes in the estimate; and • reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. Our audit work has not identified any issues in respect of the valuation of Level 2 investments	Light Purple

Page 65

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

Our IT auditors have assessed the IT arrangements in place at the County Council (as administering body for the Pension Fund) and the Pension Fund itself.

This section provides an overview of results from that assessment of the Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating				
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
FINEST	Design effectiveness only	🔴	🔴	🟡	🟢	Management override of controls	Seven users with privileged access were identified. We reviewed the journals processed in the year and only two of these users had processed journals. None were above triviality, with the largest value being £1.9m. There is no evidence of management override of controls.
Altair	Design effectiveness only	🟢	🟢	🟢	🟢	Contributions and benefits payments Member data	None.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: other communication requirements

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

Page 67

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with management and the Chair of the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the supporting Committee papers.
Audit evidence and explanations	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements

Issue	Commentary
Confirmation requests from third parties	We requested permission from management to send confirmation requests to the Pension Fund's custodian, fund managers and investment managers. This permission was granted and the requests were sent. All requested information that is available has now been provided, although we did experience some delays as, initially, audited financial statements for some investments had not been published. As noted on page 8, there was one investment (£16.6m) where audited financial statements were not available and so we reviewed the service auditor report. Overall, we are satisfied this investment is not materially misstated.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

2. Financial Statements: other communication requirements

Page 69

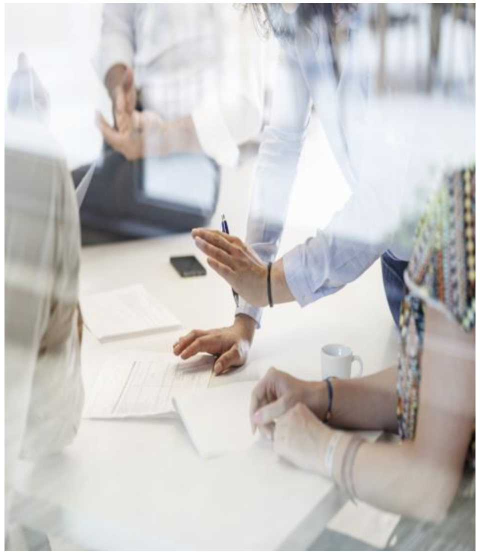
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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. We are required to 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. No inconsistencies have been identified within the draft financial statements and we plan to issue an unmodified opinion in this respect – refer to Appendix F.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report was not required to be published until 1 December 2023. As noted on page 3, we expect to be in a position to issue this separate opinion shortly after the Audit Committee meeting on 28 February 2024. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



Page 70

3. Independence and ethics

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

We confirm there were no fees for the provision of audit-related or non-audit services. Please note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Please see Appendix D for further information.

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

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

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for future non-audit services and we confirm there were no fees for the provision of audit-related or non-audit services.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to 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	•	
Confirmation of independence and objectivity	•	•
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 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 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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Follow up of prior year recommendations

We identified the following issues in the audit of Devon Pension Fund's 2021/22 financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings Report. These have both been addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Head of Investments prepares the journals for the investment balances and send the details to the Senior Accountant (Strategy) to be posted on the system. The Head of Investments then authorises the journals that have been posted, meaning that these journals are in effect being self-authorised. This is a significant control weakness as it represents management override of controls.	We recommended that the Pension Fund should introduce appropriate controls for its investment journals that originate from the Investments database, ensuring that there is appropriate segregation of duties between the originator of the journal and the approver. We found that, for 2022/23, investment journals that originate from the Investments database were prepared by the Investment Team, input by the Pension Fund Accountant and authorised by the Head of Investments.
✓	As previously reported in 2020/21, there are inadequate controls over the use of the "200" IDs used by two senior officers to post and approve journals over £200k.	We recommended that 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. We found no instances where "200"USERID's have been used to approve any Pension Fund journal during the reporting period ending 31 March 2023.

Assessment

✓ Action completed

X Not addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

As noted on page 3, we have not identified any adjustments to the financial statements that resulted in an adjustment to the Pension Fund's reported financial position.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure change identified during the audit.

Page 76

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Statistical Summary	The Members summary in Note 1 to the financial statements has the same figures for both 2022/23 and 2021/22. This note needs to reflect the actual numbers of contributors and pensioners for each financial year. **Management response** This matter has been adjusted in the current version of the statement of accounts on the Council's website. The original disclosure reported the statistical summary provided by the Actuary in the IAS 26 report and reflects membership used in the latest funding valuation and roll forward at 31 March 2023.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements.

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Due to the timing of fund manager reports the Fund has used the most recent information available for level 3 investments, which in some cases is the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports that were available at the time of audit, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £12.5m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.	12,534	12,534	12,534	The difference is immaterial, and relates to a timing difference in the availability of information.
A number of level 2 investments had differences in valuations at 31 March 2022 due to timing of audited financial statements or other trivial differences.	8,825	8,825	8,825	The difference is immaterial, and relates to a timing difference in the availability of information.
Overall impact	£25,172	£25,172	£25,172	

D. Fees and non-audit services

We set below our proposed fees for the audit and confirm there were no fees for the provision of non audit services for 2022/23.

Please see page 25 regarding the non audit services undertaken in 2021/22.

Audit fees	Proposed Fee 2022/23
Devon Pension Fund Scale Fee set by PSAA	**25,419**
Proposed fee variations Per Audit Plan	14,750
Core Pension Fund Audit per Audit Plan	**40,169**
IAS 19 letters for employer body auditors*	21,400
Work on triennial valuation member data*	5,000
Re-issued IAS 19 letters for 2021/22 (£1,000 per admitted body)*	8,000
Total audit fees per Audit Plan (excluding VAT)	**£74,569**

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. Please see page 25 for details of the fees for this work in 2021/22 and the safeguards in place.

The estimated fees disclosed in Note 11 of the Pension Fund's financial statements are £47,000 plus a further £26,400 for the IAS 19 letters and the additional work on the triennial valuation member data which the Pension Fund will re-charge to the admitted bodies.

The fees in Note 11 are estimated as the draft financial statements were prepared in advance of the production of our audit plan. The financial statements clearly disclose this fact.

The £47,000 estimated fees in Note 11 the financial statements are as follows:

PSAA Scale Fee (£24,000)

2020/21 fee variation (£13,000)

'Minor charges'** (£10,000)

** This is the terminology used in the Pension Fund's financial statements.

D. Fees and non-audit services

Audit and non-audit services

As set out on the previous page, fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23.

The fee for this work in 2021/22, as reported in that year's Audit Findings Report, was £19,000 and this was invoiced in November 2022.

We set out below the threat to our independence and safeguard that has been applied to mitigate this threat.

Service	Fees £	Threat identified	Safeguard
Non-audit Related			
IAS19 Assurance letters for Admitted Bodies	19,000	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 £19,000 in comparison to the expected fee for the audit 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.

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

F. Proposed audit opinion

Our proposed audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report. As set out on page 3, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of Devon County Council, the Administering Authority for the Pension Fund, is complete.

Independent auditor's report to the members Devon County Council on the pension fund financial statements of Devon Pension Fund

Opinion on financial statements

We have audited the financial statements of Devon Pension Fund (the 'Pension Fund') administered by Devon County Council (the 'Authority') for the year ended 31 March 2023, which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Public Value's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

F. Proposed audit opinion

In our evaluation of the Director of Finance and Public Value's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Public Value's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Public Value with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts and Annual Governance Statement, other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's financial statements. The Director of Finance and Public Value is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

F. Proposed audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority and the Director of Finance and Public Value

Page 83

As explained more fully in the Statement of Responsibilities set out on page 154, 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. The Director of Finance and Public Value is responsible for the preparation of the Statement of Accounts and Annual Governance Statement, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Public Value determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Finance and Public Value is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

F. Proposed audit opinion

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of management and the Audit Committee concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large and unusual journals and those posted by senior officers,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and IAS 26 pensions liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the management override of controls and the potential for fraud in revenue and expenditure recognition. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

F. Proposed audit opinion

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014, and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

grantthornton.co.uk

DFP/24/37
Audit Committee
28 February 2024

Audited Statement of Accounts for 2022/23

Report of the Director of Finance and Public Value

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

1) Recommendations

That the Audit Committee:

a) Approves the Management Letters of Representation in respect of the financial statements of both Devon County Council and Devon Pension Fund for the year ended 31 March 2023, and asks the Chair to sign the Letters on behalf of the Committee.

b) Reviews and approves the Authority's audited Statement of Accounts 2022/23, noting the amendments as summarised in Appendix 2.

c) Re-approves the audited Pension Fund Statement of Accounts for 2022/23 and the Annual Governance Statement for 2022/23 as previously presented to the Committee, noting there are no changes since these were approved by the Committee on 25 September 2023.

2) Background / Introduction

The purpose of this report is to ask Members to approve the audited Statement of Accounts for 2022/23.

The Audit Committee at its meeting on 25 September 2023 approved the Annual Governance Statement for 2022/23, the Devon County Council Statement of Accounts 2022/23, and the Pension Fund Statement of Accounts 2022/23.

At that stage the accounts were unaudited, and that the same meeting Grant Thornton LLP presented its plans to complete the external audit reviews for the above.

At the time of writing this report the audit is substantially complete and officers have agreed some changes for matters identified through the audit. These changes are highlighted in the Audit Findings Report which is included separately on the agenda for this meeting and explained further below.

Amendments included within the audited accounts are summarised below and in the appendices. A full copy of the audited accounts is provided on the agenda published on the website: Agenda, 28 February 2024.

3) Changes to the Authority's Accounts

Capital Grants Income

During the course of the audit, it was identified that the unspent capital grant income in respect of Local Transport Plan totalling £9.332 million that had been accounted for as a Receipt In Advance in the draft accounts should have instead been recognised as revenue in full during the year, with the unspent balance transferred to the Capital Grants Unapplied Account within Usable Reserves. This has the effect of increasing the Council's usable reserves by £9.332 million as at 31 March 2023.

This adjustment is not material to the true and fair view of the accounts, however management decided to make the adjustment to ensure consistency with prior year and subsequent year reporting of the treatment of this recurring grant income.

The impact of this change affects the accounts in several places as set out in detail in Appendix 1 to this report. In summary, the changes affect the disclosures in the following statements and notes:

- Report of the Director of Finance and Public Value and the Chief Executive
- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Notes 1, 8, 10, 13, 14, 25, 32

Other changes

A small number of other minor changes have been made to the Statements. These are summarised as follows:

- **Note 1 Expenditure and Funding Analysis**
    - Additional narrative disclosure for 2022/23 confirming the impact of the DSG Deficit (*Net Expenditure Chargeable to the General Fund (Outturn)).
- **Note 2 Accounting Standards that have been issued but have not yet been adopted.**
    - Commentary tense amended to reflect prior year audit opinions have been issued rather than will be issued.
- **Note 3 Prior Period Adjustments.**
    - Prior year column heading updated to include "Reclassification" in CIES and EFA.
- **Note 5 Assumptions made about the future and other major sources of estimation uncertainty.**
    - Removal of non-material reference to Assets Held for Sale.
- **Note 18 Financial Instruments**
    - Amendment to lower Inflation Risk assessment and reference to 'Cash (overdraft at bank).
- **Note 24 Long Term Liabilities**
    - Amendment of rounding difference of £1,000 to ensure consistency with Balance Sheet.
- **Note 25 Cash Flow Investing Activities**
    - Amend note element to provide clearer distinction between Long- and Short-Term investing activities and Capital Grants credited to surplus or deficit on the provision of services.

- **Note 31 Officers Remuneration**
    - Removal of employer pension contributions for three senior officers opting out of the pension fund.
- **Note 35 Private Finance Initiative and Similar Contracts**
    - Amend incorrect reference to inflation rate of 2.5% to 1.5%.
- **Note 36 Leases and Contract Hire**
    - Amend Finance leases (Council as lessor) and reclassify one high value lease as operating. Amend present value calculation of Finance leases (Council as Lessee) disclosure.
- **Note 37 Pensions**
    - Amend incorrect references for prior year comparators for capitalised cost of curtailments, employer contributions and 'Other actuarial gains/losses on assets' within 'Remeasurement of the net defined benefit liability'.

4) Conclusion

Overall, it is pleasing that the audit is complete and that the audited accounts can be submitted to the Committee for approval.

There were no material errors identified during the audit and the Auditor has indicated he anticipates issuing an unqualified Opinion – a good result endorsing that the accounts provide a true and fair view of the Authority's financial performance and position for 2022/23.

Angie Sinclair
Director of Finance and Public Value
Electoral Divisions: All
Cabinet Member for Finance: Councillor Phil Twiss

Contact for enquiries:
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Appendix 1

The table below sets out the impact of the change in respect of Capital Receipts in Advance being recognised as revenue and being transferred to the Capital Grants Unapplied Account.

	Unaudited Accounts £'000	Adjust-ment £'000	Audited Accounts £'000
Report of the Director of Finance and Public Value and the Chief Executive:			
CIES commentary – pages 4 and 5			
Net expenditure table – page 5 – 2022/23 column			
-Technical Adjustments	84,742	(9,332)	75,410
-Total	183,410	(9,332)	174,078
Movement in Reserves Statement commentary – page 6 – figures updated by £9 million for usable reserves and capital grants unapplied movements.			
Balance Sheet commentary – page 6 – figures updated by £9 million for "the Authority's assets exceed its liabilities".			
Gross income chart and commentary – page 8 – gross income / Government grants income segment increased by £9.3 million.			
Comprehensive Income and Expenditure Statement – page 31			
Taxation and Non-specific Grant Income – Gross income and Net Expenditure	(797,527)	(9,332)	(806,859)
(Surplus) or Deficit on Provision of Services – 2022/23 Gross Income	(1,418,510)	(9,332)	(1,427,842)
(Surplus) or Deficit on Provision of Services – 2022/23 Net Expenditure	183,410	(9,332)	174,078
Total Comprehensive Income & Expenditure	(580,094)	(9,332)	(589,426)
Movement in Reserves Statement – page 32			
Movement in Reserves during 2022/23:			
Total Comprehensive Income & Expenditure – General Fund Balance and Total Usable Reserves	183,410	(9,332)	174,078
Total Comprehensive Income & Expenditure – Total Authority Reserves	(580,094)	(9,332)	(589,426)
Adjustments between accounting basis & funding basis under regulations (Note 8) – General Fund Balance	(84,744)	9,332	(75,412)
Adjustments between accounting basis & funding basis under regulations (Note 8) – Capital Grants Unapplied	20,040	(9,332)	10,708
Net (Increase)/Decrease in 2022/23 – Capital Grants Unapplied	20,040	(9,332)	10,708
Net (Increase)/Decrease in 2022/23 – Total Usable Reserves	75,128	(9,332)	65,796
Net (Increase)/Decrease in 2022/23 – Total Authority Reserves	(580,094)	(9,332)	(589,426)
Balance at 31st March 2023 Carried Forward – Capital Grants Unapplied	20,040	(9,332)	10,708
Balance at 31st March 2023 Carried Forward – Total Usable Reserves	75,128	(9,332)	65,796
Balance at 31st March 2023 Carried Forward – Total Authority Reserves	(840,000)	(9,332)	(849,332)
Balance Sheet – page 33 – 2022/23 column			
Capital Grants Receipts in Advance	(117,112)	9,332	(107,780)
Long Term Liabilities	(1,042,101)	9,332	(1,032,769)
Net Assets/(Liabilities)	840,000	9,332	849,332
Usable Reserves	(240,425)	(9,332)	(249,757)
Total Reserves	(840,000)	(9,332)	(849,332)
Cash Flow Statement – page 34 – 2022/23 Column			
(Surplus) or Deficit on the Provision of Services	183,410	(9,332)	174,078
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	122,065	9,332	131,397
Sub-total	(97,683)	9,332	(88,351)

	Unaudited Accounts £’000	Adjust-ment £’000	Audited Accounts £’000
Note 1 – Expenditure and Funding Analysis – page 35			
Other Income and Expenditure – Adjustments between funding and accounting basis	(58,518)	(9,332)	(67,850)
Other Income and Expenditure – Net Expenditure in the CIES	(693,326)	(9,332)	(702,658)
(Surplus) or Deficit – Adjustments between funding and accounting basis	84,744	(9,332)	75,412
(Surplus) or Deficit – Net Expenditure in the CIES	183,410	(9,332)	174,078
Note 8 – Adjustments between accounting basis and funding basis under regulations – page 63			
Adjustments involving the Capital Adjustment Account:			
Capital grants and contributions – General Fund	114,607	9,332	123,939
Capital grants and contributions – Capital Grants Unapplied	(114,607)	(9,332)	(123,939)
Total Adjustments – General Fund	(84,744)	9,332	(75,412)
Total Adjustments – Capital Grants Unapplied	20,040	(9,332)	10,708
Note 10 – Notes to the Expenditure and Funding Analysis – page 66			
Other income and expenditure from the Expenditure and Funding Analysis – Adjustments for Capital Purposes	(71,322)	(9,332)	(80,654)
Other income and expenditure from the Expenditure and Funding Analysis – Total Adjustments	(58,518)	(9,332)	(67,850)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services – Note 8 – Adjustments for Capital Purposes	34,578	(9,332)	25,246
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services – Note 8 – Total Adjustments	84,744	(9,332)	75,412
Note 13 – Taxation and Non Specific Grant Income – page 69 – 2022/23			
Capital grants and contributions	(114,607)	(9,332)	(123,939)
Total	(797,527)	(9,332)	(806,859)
Note 14 – Expenditure and Income Analysed by Nature – page 70 – 2022/23			
Government grants and contributions	(680,909)	(9,332)	(690,241)
Total Income	(1,418,510)	(9,332)	(1,427,842)
(Surplus) or deficit on the provision of services	183,410	(9,332)	174,078
Note 25 – Cash Flow – Operating Activities – page 97			
Investing and financing items – Capital Grants credited to surplus or deficit on the provision of services	111,906	9,332	121,238
Investing and financing items – total	122,065	9,332	131,397
Note 32 – Grant Income – page 105 and 107			
Credited to Taxation and Non Specific Grant Income – Capital Grants and Contributions:			
Department for Transport - Local Transport Plan	(44,509)	(9,332)	(54,706)
Other Grants & Contributions	(14,830)		(13,965)
Total	(114,607)	(9,332)	(123,939)
Grant Income - Credited to Net Cost of Services - Capital Grants (Included within Capital Grants Receipts in Advance - Long Term Liabilities):			
Department for Transport - Local Transport Plan (LTP)	(9,332)	9,332	0
Department for Energy Security and Net Zero – reclassification	(8,897)	(1,046)	(9,943)
Other Grants & Contributions – reclassification & rounding	(5,754)	1,048	(4,706)
Total	(117,112)	9,332	(107,780)

Appendix 2

Amended Disclosures in the Authority's Statement of Accounts 2022/23

This appendix includes extracts from the audited accounts where changes have been made to the draft accounts.

[Inclusion of amended tables and text only for this disclosure]

Report of the Director of Finance and Public Value and the Chief Executive
Page 4

- Final paragraph CIES amended from 183,410 to 174,078

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 37) 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 31)

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 under £174.1 million in 2022/23 compared with a deficit of £40.6 million in 2021/22. The increase in net expenditure of £133.5 million is shown in the following table.

Page 5
- 2022/23 Technical adjustments amended from 84,742 to 75,410
- 2022/23 Total amended from 183,410 to 174,078

2021/22 £000	Deficit on provision of Services	2022/23 £000	Movement £000
15,441	Technical Adjustments - no impact on reserves	75,412	59,971
(12,683)	Use of Reserves and carry forwards	61,318	74,001
37,858	DSG deficit transferred to adjustment account	37,348	(510)
40,616		**174,078**	**133,462**

- 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 £75.4 million these adjustments are £60 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 £11 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 form 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 32)
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 65.

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.

Page 5/6
Movement in Reserves Statement commentary figures updated by £9 million for usable reserves and capital grants unapplied movements.
Balance Sheet commentary figures updated by £9 million for "the Authority's assets exceed its liabilities".

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.

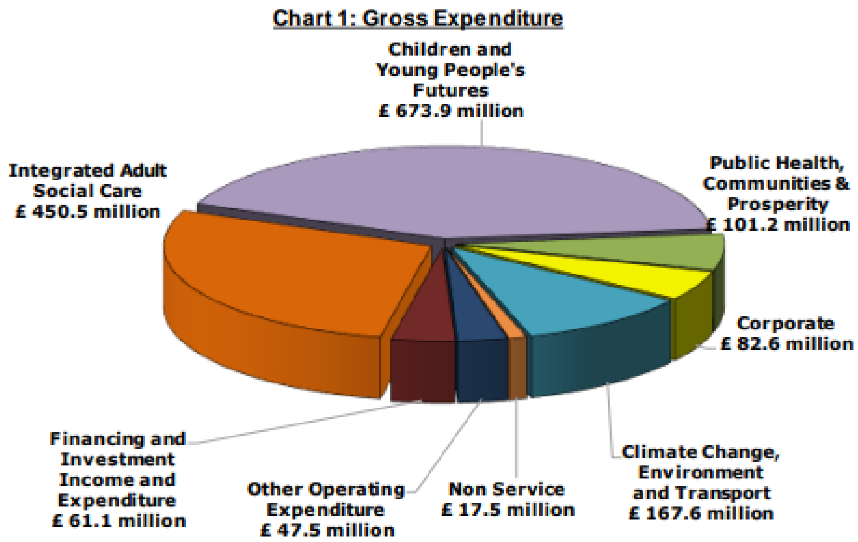
Usable Reserves have reduced by just under £66 million, consisting of three elements

- Capital Grants Unapplied have reduced by just under £11 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.

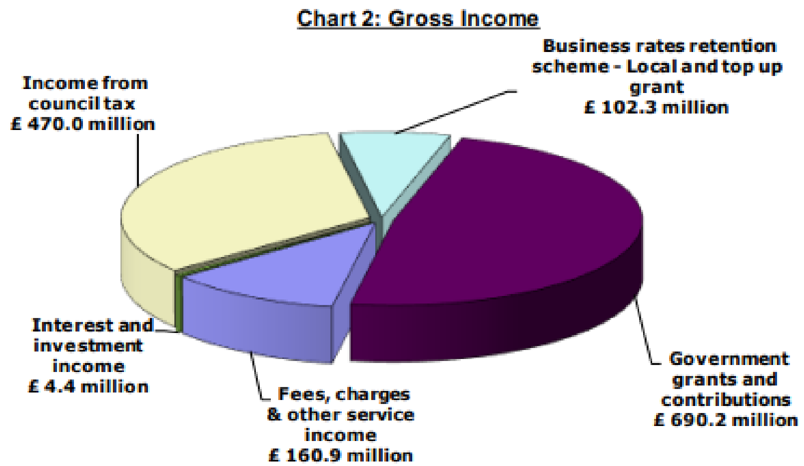
Balance Sheet (page 33)
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category 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 £849 million (£259.9 million at 31 March 2022). The Pension Liability of just under £262 million (Note 24, Page 97) 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 126.

Page 8
Gross income chart and commentary gross income / Government grants income segment increased by £9.3 million.



Expenditure is funded from a number of sources, some within Devon and some from Central Government. Chart 2, that follows, highlights sources of revenue income for the Authority during the year. Total gross income of just under £1,428 million was received during the year. Chart 2 shows how this is derived.



Revenue Spending

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

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

Agenda Item 6

Comprehensive Income and Expenditure Statement
Page 31

- "Reclassified" added to 2021/22 comparative column headings, and figures restated to reflect updated directorate structure.
- Taxation and Non-specific Grant Income updated for capital grant recognition amendment, and subsequent totals updated.

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	Reclassified 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	(806,859)	(806,859)
1,458,700	**(1,418,084)**	**40,616**	**(Surplus) or Deficit on Provision of Services**		**1,601,920**	**(1,427,842)**	**174,078**
		(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**				**(589,426)**

Movement in Reserves Statement
Page 32
See Appendix 1 for detailed changes listed

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**
Movement in reserves during 2021/22						
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)**
Movement in reserves during 2022/23						
Total Comprehensive Income & Expenditure	**174,078**			**174,078**	**(763,504)**	**(589,426)**
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)	(75,412)	10,708	(6,230)	**(70,934)**	70,934	**0**
Net (Increase)/Decrease in 2022/23	**61,318**	**10,708**	**(6,230)**	**65,796**	**(655,222)**	**(589,426)**
Balance at 31st March 2023 Carried Forward	**(202,095)**	**(37,813)**	**(9,849)**	**(249,757)**	**(599,575)**	**(849,332)**

Balance Sheet
Page 33

- Capital Grants Receipts in Advance amended from (117,112)
- Long Term Liabilities amended from (1,042,101)
- Net Assets/(Liabilities) amended from 840,000.
- Usable Reserves amended from (240,425)
- Total Reserves amended from (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	
970	Investments in Associates & Joint Ventures	18	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	(107,780)	
(1,681,243)	**Long Term Liabilities**			(1,032,769)
259,906	**Net Assets/(Liabilities)**			**849,332**
(315,553)	Usable Reserves		(249,757)	
55,647	Unusable Reserves	23	(599,575)	
(259,906)	**Total Reserves**			**(849,332)**

Cash Flow Statement
Page 34

- 2022/23 (Surplus) or Deficit on the Provision of Services amended from 183,410.
- 2022/23 Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities amended from 122,065.
- 2022/23 Sub-total amended from (97,683)

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 £000		Note	2022/23 £000	£000
40,616	**(Surplus) or Deficit on the Provision of Services**			**174,078**
(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	131,397	
(86,040)				(88,351)
(45,424)	**Net cash flows from operating activities**			**85,727**
5,426	Investing activities	26		**(84,447)**
19,179	Financing activities	27		**15,344**
(20,819)	**Net (increase)/decrease in cash and cash equivalents**			**16,624**
66,417	Cash and cash equivalents opening balance			87,236
87,236	**Cash and cash equivalents at year end**			**70,612**

Note 1 – Expenditure and Funding Analysis
Page 35

- Other Income and Expenditure – Adjustments between funding and accounting basis amended from (58,518)
- Other Income and Expenditure – Net Expenditure in the CIES amended from (693,326)
- (Surplus) or Deficit – Adjustments between funding and accounting basis amended from 84,744.
- (Surplus) or Deficit – Net Expenditure in the CIES amended from 183,410.
- Additional narrative disclosure for 2022/23 confirming the impact of the DSG Deficit (*Net Expenditure Chargeable to the General Fund (Outturn)).

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.

Expenditure and Funding Analysis

2022/23	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	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)	(67,850)	0	(702,658)
(Surplus) or Deficit	**98,666**	**75,412**	**0**	**174,078**
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)**			

*Net Expenditure Chargeable to the General Fund (Outturn)

The Net Expenditure Chargeable to the General Fund (Outturn) of £98.666 million (2021/22 = £25.175 million) includes the outturn variance of £37.348 million (2021/22 = £37.858 million) in relation to Dedicated Schools Grant (DSG) High Needs deficit, as reported to Cabinet in June 2023. This is included within the Children and Young People's Futures Net Expenditure outturn line in the EFA above. Current statutory accounting regulations requires the DSG Deficit be transferred to the Dedicated Schools Grant (DSG) Adjustment Account (see Note 23 – Unusable Reserves). The Council chooses to report the variance this way to aid transparency of total expenditure related to Children and Young People's Futures. The Net Expenditure Chargeable to the General Fund (Outturn) excluding the deficit, reflecting the net impact on usable reserves in the year would be

£61.318m (2021/22 = (£12.683 million)). This is shown in the General Fund Balance analysis above and in the Movement in Reserves Statement (page 32).

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.

Note 8 – Adjustments between accounting basis and funding basis under regulations
Page 63
Adjustments involving the Capital Adjustment Account:

- Capital grants and contributions – General Fund amended from 114,607.
- Capital grants and contributions – Capital Grants Unapplied amended from (114,607)
- Total Adjustments – General Fund amended from (84,744)
- Total Adjustments – Capital Grants Unapplied amended from 20,040

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	123,939	(123,939)		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	**(75,412)**	**10,708**	**(6,230)**	**70,934**

Note 10 – Notes to the Expenditure and Funding Analysis
Page 66

- **Other income and expenditure from the Expenditure and Funding Analysis – Adjustments for Capital Purposes amended from (71,322)**
- **Other income and expenditure from the Expenditure and Funding Analysis – Total Adjustments amended from (58,518)**
- **Difference between General Fund surplus or deficit and CIES surplus amended from or deficit on the Provision of Services – Note 8 – Adjustments for Capital Purposes amended from 34,578.**
- **Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services – Note 8 – Total Adjustments amended from 84,744**

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	(80,654)	23,935	(11,131)	(67,850)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8	**25,246**	**60,613**	**(10,447)**	**75,412**

Note 13 – Taxation and Non-Specific Grant Income
Page 69
- 2022/23 Capital grants and contributions amended from (114,607)
- 2022/23 Total amended from (797,527)

13. Taxation and Non Specific Grant Income

2021/22 £000		2022/23 £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	(123,939)
(800,600)		**(806,859)**

Note 14 – Expenditure and Income Analysed by Nature
Page 70
- 2022/23 Government grants and contributions amended from (680,909)
- 2022/23 Total Income amended from (1,418,510)
- 2022/23 (Surplus) or deficit on the provision of services amended from 183,410

14. Expenditure and Income Analysed by Nature

2021/22 £000		2022/23 £000
	Expenditure	
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
1,458,700	**Total Expenditure**	1,601,920
	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	(690,241)
(1,418,084)	**Total Income**	(1,427,842)
40,616	**(Surplus) or deficit on the provision of services**	**174,078**

Note 25 – Cash Flow – Operating Activities
Page 97

- 2022/23 Investing and financing items – Capital Grants credited to surplus or deficit on the provision of services amended from 111,906.
- 2022/23 Investing and financing items – total amended from 122,065

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	Capital Grants credited to surplus or deficit on the provision of services	121,238
146,102		**131,397**

Note 32 – Grant Income
Pages 105 and 107
See Appendix 1 for detailed changes

32. Grant Income

Page 105

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)
(115,498)	**Non ringfenced Government Grants**	**(110,638)**
	Capital Grants and Contributions:	
(61,850)	Department for Transport - Local Transport Plan	(54,706)
(8,146)	Department for Tranpsort - 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	(13,965)
(135,348)		**(123,939)**

Page 107

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)
(13,022)	Department for Energy Security and Net Zero	(9,943)
(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	(4,706)
(102,906)		**(107,780)**

Grant Thornton UK LLP
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Topsham Road
Exeter
EX2 4QD

Tel: 01392 380208
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Date: 28th February 2024

Dear Grant Thornton UK LLP

Devon County Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Devon County Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of land and buildings and the net defined benefit pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

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

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent;

   b. none of the assets of the Council has been assigned, pledged or mortgaged;

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

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

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

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

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

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

xiii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

   -We are not aware of any actual or potential equal pay claims against the Authority therefore no current actual or potential liabilities exist.

   - We have made enquiries about, and undertaken consistency checking for, both of our Job evaluation schemes to establish their position regarding equal pay challenges.

   -Consistency checking is embedded in our processes.

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

xv. The prior period adjustments disclosed in Note 3 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xvi. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

   a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

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

xvii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

xviii. We have provided you with:

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

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

c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

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

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

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

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

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

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

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

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

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

Annual Governance Statement

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

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 28 February 2024.

Yours faithfully,

Angie Sinclair

Director of Finance and Public Value

28 February 2024

Cllr Richard Scott

Chair of the Audit Committee

28 February 2024

Signed on behalf of the Council:

Devon
County Council

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Date: 28th February 2024

Dear Sirs

Devon Pension Fund
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Devon Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

    a. there are no unrecorded liabilities, actual or contingent

    b. none of the assets of the Fund has been assigned, pledged or mortgaged

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

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

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

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

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

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

xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

    a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

    b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

    c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

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

Information Provided

xiii. We have provided you with:

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

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

    c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.

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

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

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

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

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

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

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

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

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

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

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

Approval

The approval of this letter of representation was minuted by Devon County Council’s Audit Committee at its meeting on 28 February 2024.

Yours faithfully,

Angie Sinclair

Director of Finance and Public Value

28 February 2024

Cllr Richard Scott

Chair of the Audit Committee

28 February 2024

Signed on behalf of the Audit Committee

Devon County Council

Statement of Accounts and Annual Governance Statement 2022/23

Statement of Accounts and Annual Governance Statement 2022/23

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 37) 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 31)

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 under £174.1 million in 2022/23 compared with a deficit of £40.6 million in 2021/22. The increase in net expenditure of £133.5 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	75,412	59,971
(12,683)	Use of Reserves and carry forwards	61,318	74,001
37,858	DSG deficit transferred to adjustment account	37,348	(510)
40,616		**174,078**	**133,462**

- 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 £75.4 million these adjustments are £60 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 £11 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 form 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 32)

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 65.

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 under £66 million, consisting of three elements

- Capital Grants Unapplied have reduced by just under £11 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 33)
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 £849 million (£259.9 million at 31 March 2022). The Pension Liability of just under £262 million (Note 24, Page 97) 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 126.

Cash Flow Statement (page 34)
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.

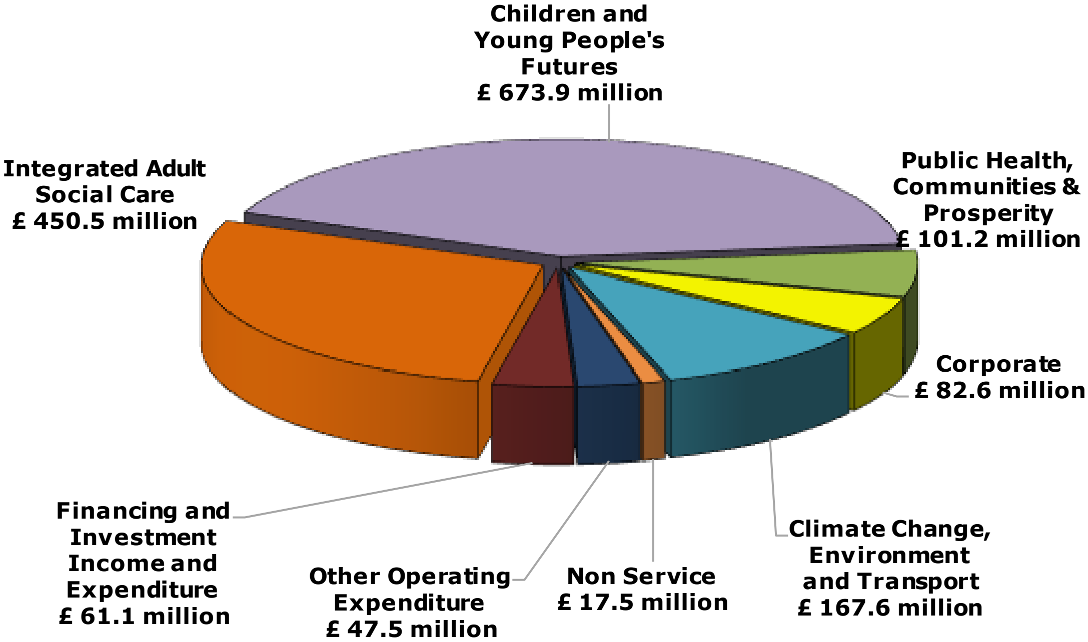
There are significant ongoing pressures in both adult and children's services with the greatest area of concern being the funding shortfall on the Dedicated School's Grant High Needs Block. For the six years 2020/21 to 2025/26 the DSG Deficit is transferred from the Authority's Usable Reserves to a ring 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

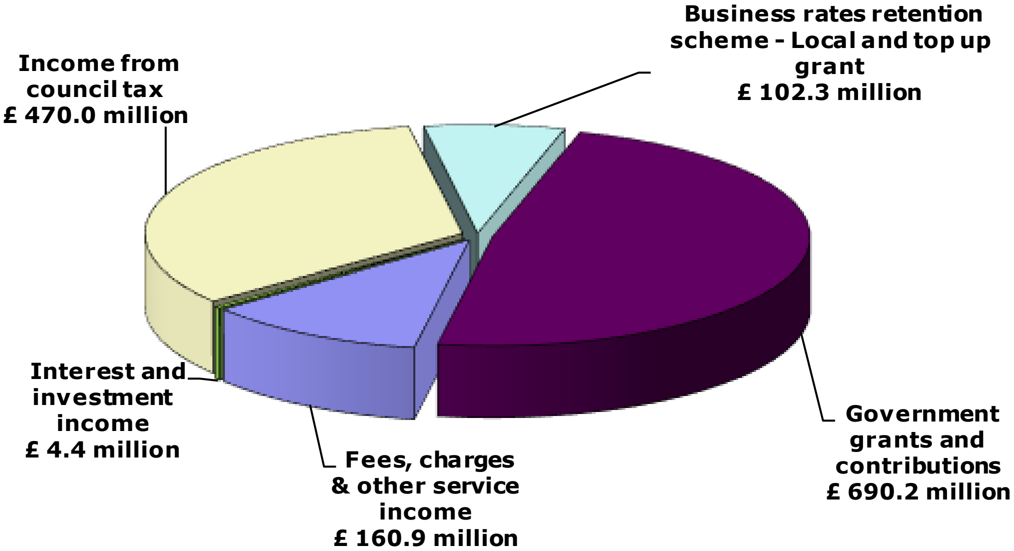
The Code requires that the Comprehensive Income and Expenditure Statement takes the format of how the Authority reports its own financial performance through budget monitoring during the year against the budget that was approved by Council in February 2022. Gross expenditure totalled just under £1,602 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 under £1,428 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	(6,949)	
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		**(28,436)**

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 £000	Movement £000	31 March 2023 £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)**

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 descoped. 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 97) 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 75) leaving a deficit (Pensions Reserve) of just under £243 million (Note 23 page 93). 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 126 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	60

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 disproportionally 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

28th February 2024

Donna Manson

Chief Executive

28th February 2024

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

28th February 2024

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 28th February 2024.

Councillor Richard Scott

Chair of the Audit Committee

28th February 2024

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	Reclassified **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	(806,859)	(806,859)
1,458,700	**(1,418,084)**	**40,616**	**(Surplus) or Deficit on Provision of Services**		**1,601,920**	**(1,427,842)**	**174,078**
		(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**				**(589,426)**

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	**174,078**			**174,078**	**(763,504)**	**(589,426)**
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)	(75,412)	10,708	(6,230)	**(70,934)**	70,934	**0**
Net (Increase)/Decrease in 2022/23	**61,318**	**10,708**	**(6,230)**	**65,796**	**(655,222)**	**(589,426)**
Balance at 31st March 2023 Carried Forward	**(202,095)**	**(37,813)**	**(9,849)**	**(249,757)**	**(599,575)**	**(849,332)**

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	
970	Investments in Associates & Joint Ventures	18	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	(107,780)	
(1,681,243)	**Long Term Liabilities**			(1,032,769)
259,906	**Net Assets/(Liabilities)**			**849,332**
(315,553)	Usable Reserves		(249,757)	
55,647	Unusable Reserves	23	(599,575)	
(259,906)	**Total Reserves**			**(849,332)**

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 £000		Note	2022/23 £000	2022/23 £000
40,616	**(Surplus) or Deficit on the Provision of Services**			**174,078**
(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	131,397	
(86,040)				(88,351)
(45,424)	**Net cash flows from operating activities**			**85,727**
5,426	Investing activities	26		**(84,447)**
19,179	Financing activities	27		**15,344**
(20,819)	**Net (increase)/decrease in cash and cash equivalents**			**16,624**
66,417	Cash and cash equivalents opening balance			87,236
87,236	**Cash and cash equivalents at year end**			**70,612**

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.

Expenditure and Funding Analysis

2022/23	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	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)	(67,850)	0	(702,658)
(Surplus) or Deficit	**98,666**	**75,412**	**0**	**174,078**
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)**			

*Net Expenditure Chargeable to the General Fund (Outturn)

The Net Expenditure Chargeable to the General Fund (Outturn) of £98.666 million (2021/22 = £25.175 million) includes the outturn variance of £37.348 million (2021/22 = £37.858 million) in relation to Dedicated Schools Grant (DSG) High Needs deficit, as reported to Cabinet in June 2023. This is included within the Children and Young People's Futures Net Expenditure outturn line in the EFA above. Current statutory accounting regulations requires the DSG Deficit be transferred to the Dedicated Schools Grant (DSG) Adjustment Account (see Note 23 – Unusable Reserves). The Council chooses to report the variance this way to aid transparency of total expenditure related to Children and Young People's Futures. The Net Expenditure Chargeable to the General Fund (Outturn) excluding the deficit, reflecting the net impact on usable reserves in the year would be

£61.318m (2021/22 = (£12.683 million)). This is shown in the General Fund Balance analysis above and in the Movement in Reserves Statement (page 32).

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	Reclassified **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)**			

*See note above on previous page

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.

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, at the time of preparing the Statement of Accounts the Authority did not consider early adoption of IFRS16 until

- audit opinions had been issued on its previous years' accounts; and
- CIPFA had 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 for the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis.

		2021/22 Net Expenditure reclassified into Authority's reporting segments					
2021/22 Net Expenditure		**Integrated Adult Social Care**	**Children and Young People's**	**Public Health, Communities & Prosperity**	**Corporate**	**Climate Change, Environment & Transport**	**Non Service**
£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 118 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	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham LLP, a firm of consulting Actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.	The 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.
	Amounts charged to and income credited to the Comprehensive Income and Expenditure Statement and the valuation of the Pension Reserve in the Balance Sheet in respect of employee pension benefits are heavily influenced by the estimated future inflation and earnings on investments. The assumptions made in making these estimates are set out in Note 37. The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.	The impact is not expected to be material.

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	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.
	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.	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. A 1% change in the valuation of those assets revalued in 2022/23 would result in a change in carrying amount of £6 million. 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.
	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.	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.

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, which means that it is a general grant, not identified to particular service expenditure and where there are no stipulations as to its use 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 restrictions attached (i.e. ring-fenced) then the income and expenditure are recorded in non-service element of net cost of services. If there are conditions (there are return obligations) then 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.

COVID grants and expenditure in 2022/23	**Non-ringfenced**	**Ringfenced**	**TOTAL**
	£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 7th 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	123,939	(123,939)		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	**(75,412)**	**10,708**	**(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	**(21,091)**	21,091	(24,680)	**(24,680)**	24,680	(20,780)	**(20,780)**
DSG High Needs / SEND							
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	(80,654)	23,935	(11,131)	(67,850)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8	**25,246**	**60,613**	**(10,447)**	**75,412**

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

11. Other Operating Expenditure

2021/22 £000		2022/23 £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 £000		2022/23 £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 £000		2022/23 £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	(123,939)
(800,600)		**(806,859)**

14. Expenditure and Income Analysed by Nature

2021/22 £000	Expenditure	2022/23 £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
1,458,700	**Total Expenditure**	1,601,920
	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	(690,241)
(1,418,084)	**Total Income**	(1,427,842)
40,616	**(Surplus) or deficit on the provision of services**	**174,078**

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 Revenue from Contracts with Service Recipients £000	2021/22 Other Revenue (outside of scope of IFRS15) £000	2021/22 Total Revenue from External Customers £000		2022/23 Revenue from Contracts with Service Recipients £000	2022/23 Other Revenue (outside of scope of IFRS15) £000	2022/23 Total Revenue from External Customers £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)
(110,446)	**(15,202)**	**(125,648)**	**Total**	**(127,629)**	**(6,013)**	**(133,642)**

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 £000	2024/25 £000	Total Commitment 2023/24 Onwards £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.

31 March 2022				**31 March 2023**		
Purchase Cost £000	**Fair Value £000**	**FIRR £000**	**Equity Instrument**	**Purchase Cost £000**	**Fair Value £000**	**FIRR £000**
10,000	11,089	(1,089)	CCLA Local Authorities Property Fund	10,000	9,261	739
1,965	885	1,080	Exeter Science Park Limited	1,965	885	1,080
0	85	(85)	Norse Property Services (NPS)	0	85	(85)
11,965	**12,059**	**(94)**	**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 Long-Term £000	31 March 2022 Current £000	Financial Assets	31 March 2023 Long-Term £000	31 March 2023 Current £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		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	**Other Comprehensive Income and Expenditure**		**(Surplus) or Deficit on the Provision of Services**	**Other Comprehensive Income and Expenditure**
£000	**£000**		**£000**	**£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			31st March 2023	
Carrying amount	**Fair value**	**Financial Liabilities held at amortised cost**	**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 17th February 2022. 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
				3,299

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
	88,687	88,305
Provision for bad debts - Impairment	(2,460)	(3,291)
Long Term Debtors not yet due	6,288	2,211
	92,515	87,225

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 £000		31st March 2023 £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)
(508,138)		**(508,138)**

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. Between October and December 2023 the Authority repaid £46.5 million of LOBOs and from January 2024 there are none remaining.

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.

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)
(145,537)		**(151,799)**

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
141,488		**149,502**

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 £000**	Amounts released **£000**	Amounts utilised **£000**	Provided in year **£000**	**31st March 2022 £000**	Amounts released **£000**	Amounts utilised **£000**	Provided in year **£000**	**31st March 2023 £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 £000	Amounts released £000	Provided in year £000	31st March 2022 £000	Amounts released £000	Amounts utilised £000	Provided in year £000	31st March 2023 £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	**8,810**

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	**3,886**

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
87,236		**70,612**

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)
3,065	**Balance at 31st March**	**688**

23. Unusable Reserves

31st March 2022 £000		31st March 2023 £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)
55,647		**(599,575)**

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 £000		2022/23 £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
(312,620)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(326,929)
15,098	Difference between fair value depreciation and historical cost depreciation	16,480
21,625	Accumulated gains on assets sold or scrapped	21,400
36,723	Amount written off to the Capital Adjustment Account	37,880
(275,897)	**Balance at 31st March**	**(289,049)**

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 £000		2022/23 £000
	DSG deficit balance at 1st April	
48,998	High Needs Block - SEND	86,529
(5,442)	De-delegated, Central and Early Years Block, Growth Fund	(5,115)
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
(5,115)	De-delegated, Central and Early Years Block	(6,675)
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 £000		2022/23 £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
129,977		174,528
(36,723)	Adjusting amounts written out of the Revaluation Reserve	(37,880)
93,254	Net written out amount of the cost of non-current assets consumed in the year	136,648
0	Recognition of Loan to Skypark	(470)
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)
(155,265)		(157,824)
(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 £000		31st March 2023 £000
(907,654)	Pensions Liability	(262,107)
(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)		**(393,089)**

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	Capital Grants credited to surplus or deficit on the provision of services	121,238
146,102		**131,397**

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 investments and other payments for investing activities	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

			Non-cash changes		
	1st April 2022	Financing cash flows	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 £000		2022/23 £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				**104,890**
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				**46,613**
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		2022/23	109,179			18,560	**127,739**
Business Support	8	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		2022/23	53,260			9,054	**62,314**
	10	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	11	2022/23	24,869			4,228	**29,097**
and Skills		2021/22	107,254			18,233	**125,487**
Head of Service for Planning, Transportation	12	2022/23	4,892				**4,892**
and Environment		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 No.	2022/23 No.	2021/22 No.	2022/23 No.	2021/22 No.	2022/23 No.	2021/22 £000	2022/23 £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)**
(56,260)		**(10,914)**

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)
(115,498)	**Non ringfenced Government Grants**	**(110,638)**
	Capital Grants and Contributions:	
(61,850)	Department for Transport - Local Transport Plan	(54,706)
(8,146)	Department for Tranpsort - 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	(13,965)
(135,348)		**(123,939)**

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)
(13,022)	Department for Energy Security and Net Zero	(9,943)
(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	(4,706)
(102,906)		**(107,780)**

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:

2021/22 Central Expenditure £000	2021/22 ISB £000	2021/22 Total £000		2022/23 Central Expenditure £000	2022/23 ISB £000	2022/23 Total £000
		588,227	Final DSG before Academy and high needs recoupment			620,687
		(297,885)	Academy and high needs figure recouped			(317,821)
		290,342	Total DSG after Academy recoupment			302,866
			Plus Brought forward from previous year			
		(5,115)	Less carry forward to following year			(6,675)
95,269	189,959	285,227	Agreed initial budgeted distribution	82,346	213,845	296,191
4,200	(3,865)	335	In year adjustments		(458)	(458)
99,469	186,094	285,562	Final budgeted distribution	82,346	213,387	295,733
(142,441)		(142,441)	Less Actual central expenditure	(126,533)		(126,533)
	(186,094)	(186,094)	Less Actual ISB deployed to schools		(213,223)	(213,223)
(42,972)	**0**	**(42,973)**	**In Year Carry-forward**	**(44,187)**	**164**	**(44,023)**
		5,115	Plus carry forward agreed in advance			6,675
		(43,556)	DSG unusable reserve at end of previous year			(81,414)
		(37,858)	Addition to DSG unusable reserve during the year			(37,348)
		(81,414)	Total DSG unusable reserve at end of year			(118,762)
		(81,414)	**Net DSG position at end of year**			**(118,762)**

The overall DSG High Needs Deficit position at the end of 2022/23 is £125.437 million as the Net DSG position at the end of 2022/23 includes £6.675 million carry forward balances ringfenced to Growth Fund, De-delegation, SEN projects and Early Years.

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 £000		2022/23 £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 £000		2022/23 £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 £000	2022/23 £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

		2021/22 £000	2022/23 £000
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

		2021/22 £000	2022/23 £000
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 Contribution - other partners £000	2021/22 Council's Contribution £000	2021/22 Total Expenditure £000	2022/23 Contribution - other partners £000	2022/23 Council's Contribution £000	2022/23 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 currrently 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 £000		2022/23 £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 (PWLB) 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 £000		2022/23 £000
(47,997)	Opening Liability	(44,010)
3,987	Repayment of Liability	4,368
(44,010)	**Closing Liability**	**(39,642)**
(60,315)	**Fair Value**	**(47,558)**

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**
	39,642	**19,481**	**43,817**	**29,539**	**132,479**

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		2022/23 £000
	Property Plant & Equipment	
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 1.5% 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 £000		2022/23 £000
	Property Plant & Equipment	
64,762	Initial recognition	64,527
(3,469)	Depreciation	(3,652)
3,234	Revaluations	4,384
64,527	**Closing Net Book Value**	**65,259**

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

Value of Deferred Credit held under PFI contract

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

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 101 assets that are leased to tenants that meet the definition of a finance lease. The lease debtor is not included within the balance sheet as the sum is not material. The present value at 31 March 2023 of the rental payments due to the Council is £10,000. 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 lease liability is not included within the balance sheet as the sum is not material. The present value of lease payments to be made over the term is estimated to be £57,000. 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:

2021/22	Property £000	Equipment £000	Contract Hire £000	**Total £000**
Minimum lease payments	1,595	279	0	**1,874**
	1,595	**279**	**0**	**1,874**

2022/23	Property £000	Equipment £000	Contract Hire £000	**Total £000**
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	2,529
5,929	Later than 1 year but not later than 5 years	7,129
3,307	Later than 5 years	4,849
11,752		**14,507**

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	2,529
2,516		**2,529**

37. Pensions

As part of the terms and conditions of employment of its officers and other employees, the County Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments (for those benefits) and to disclosed them at the time that employees earn their future entitlement.

The County Council participates in three different pension schemes:

- The Local Government Pension Scheme
- The Teachers Pension Scheme, and
- The NHS Pensions scheme

Unfunded Benefits

Unfunded Benefits are a defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities and cash 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 introduced a new State Pension for people reaching State Pension age on or after 6 April 2017. The new scheme replaces the existing basic and additional State Pension and end contracting out and the National Insurance rebate.

The LGPS provides significant retirement and death benefits to its members which include the following:

- A guaranteed pension calculated as 1/60th of the member's final salary multiplied by the amount of service between April 2008 and March 2014
- A guaranteed pension calculated as 1/80th of the member's final salary multiplied by the amount of service up to April 2008
- A Tax-free lump sum upon retirement calculated using the formula 3/80ths of the member's final salary multiplied by the amount of service up to April 2008. Options are available to increase the lump sum
- Ability to increase benefits by paying additional voluntary contributions
- An Ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 55
- Death in Service lump sum of salary multiplied by 3

- Widow’s/widower’s/civil partner’s/co habiting partner pension payable for life
- Children’s pension
- Benefits rise in line with inflation

The Local Government Pension Regulations 2013 commenced on 1 April 2014 for all future LGPS membership.

Some of the main provisions of LGPS 2014 are as follows:

- A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI
- The Accrual rate will be 1/49th
- Retirement age linked to State Pension Age
- A 50/50 option where members can elect to pay half the contributions for half the pension.
- Benefits for service prior to 1st April 2014 are protected and keep the final salary link.

The Pension Liability does not represent an immediate call on the Authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

Page 148 Pension Fund Accounts provides more information on the regulatory framework of the LGPS and the Authority’s role as an Administrating Authority.

Transactions relating to Retirement Benefits

The County Council recognises the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme and Unfunded Benefit Arrangements - Liabilities

Comprehensive Income and Expenditure Statement	**2021/22 £000**	**2022/23 £000**
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 2021/22	**Funded Liabilities 2022/23**	**Unfunded Liabilities 2021/22**	**Unfunded Liabilities 2022/23**	**Total Liabilities 2021/22**	**Total Liabilities 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 £000	2022/23 £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** £000	%	**31 March 2023** £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 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.

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.

Devon County Council

Pension Fund
Statement of Accounts
2022/23

www.devon.gov.uk

Pension Fund Statement of Accounts 2022/23

Notes to the Accounts

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

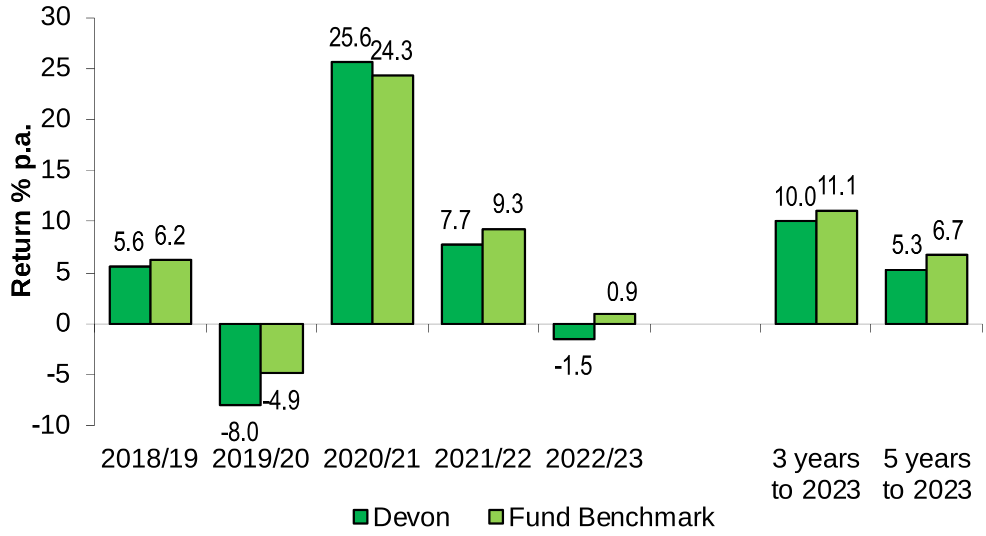
As indicated above, the asset value of the Fund at the end of the 2022/23 financial year was £5.313 billion. This represents an investment return of -1.5% net of fees, compared with the Fund's internally set strategic benchmark target of +0.9%.

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.

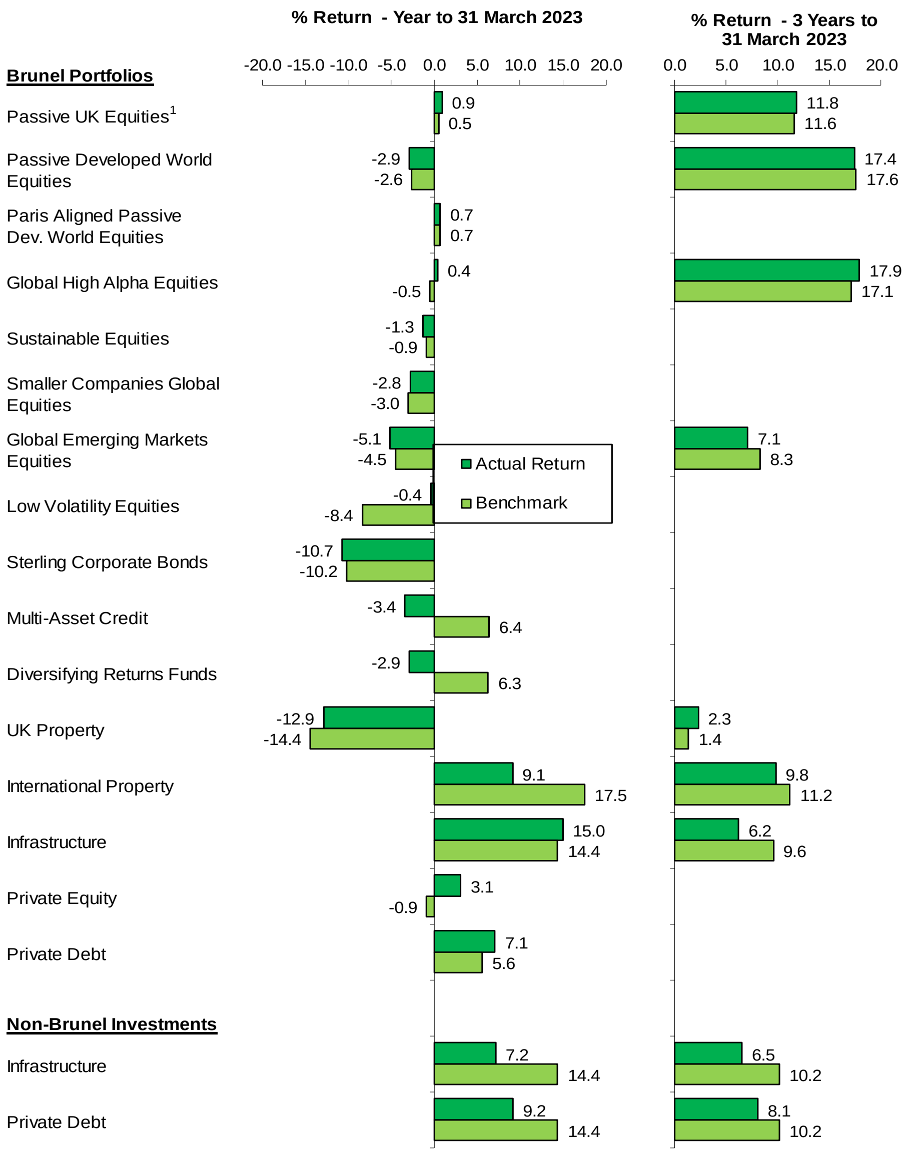
The following chart presents the investment returns achieved by the Devon Fund compared to the Fund's benchmark over each of the last five years, plus the total annualised return over the last three years and the last five years. Performance figures are shown net of fees.

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

Equities	**51.7%**
Passive	26.5%
High Alpha	5.6%
Small Cap	5.3%
Sustainable	9.8%
Emerging Market	4.5%
Fixed Interest	**19.8%**
Global Bonds	6.6%
Multi-Sector Credit	12.0%
Cash	1.2%
Alternatives/Other	**28.5%**
Diversifying Returns Funds	7.0%
Property	8.8%
Infrastructure	9.0%
Private Equity	0.8%
Private Debt	2.9%

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

28th February 2024

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

28th February 2024

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 28th February 2024.

Councillor Richard Scott

Chair of the Audit Committee

28th February 2024.

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:

Schedulted 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 indeminity 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	11,546
Pensioners and Dependants	14,548	14,894	15,148	16,113	15,731
Deferred Pensioners	20,240	19,235	19,520	20,348	19,795
Other Employers					
Contributors	27,458	28,624	28,072	27,886	29,475
Pensioners and Dependants	22,118	21,056	21,847	22,519	23,766
Deferred Pensioners	32,616	32,490	34,004	36,050	37,777

* 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
Ace MAT
Ace Schools MAT (Plymouth)
Acorn Multi Academy Trust
Alumnis MAT
An Daras Multi Academy Trust
Ashburton Town Council
Avanti Hall School
Axminster Town Council
Axmouth Parish Council
Aylesbeare Parish Council
Barnstaple Town Council
Barton Hill Academy
Bay Education Trust
Bicton College (Cornwall College)
Bideford Town Council
Bishops Clyst Parish Council
Bishops Tawton Parish Council
Bishopsteignton Parish Council
Bovey Tracey Town Council
Bradninch Town Council
Bradworthy Primary Academy
Braunton Academy
Braunton Parish Council
Brixham Academy
Brixham Town Council
Broadclyst Parish Council
Buckland Monachorum Parish Council
Budleigh Salterton Town Council
Catch 22 Multi Academy Trust
Chudleigh Town Council
Chulmleigh Academy Trust
Churston Academy
City College Plymouth
Clyst Honiton Parish Council
Clyst Vale Community College Academy
Colyton Grammar School Academy
Combe Martin Parish Council
Connect Academy Trust
Coombe Pafford Academy
Cornerstone Academy Trust
Cranbrook Town Council
Crediton Town Council
Cullompton Town Council
Dartington Parish Council
Dartmoor MAT
Dartmoor National Park
Dartmouth Town Council
Dawlish Town Council
Devon & Cornwall Police And Crime Commissioner
Devon & Somerset Fire & Rescue Service
Devon County Council
Devonport High School For Boys Academy
Devonport High School For Girls Academy Trust
Discovery Multi Academy Trust
East Devon District Council
Education South West
Exeter City Council
Exeter College
Exeter Learning Academy Trust
Exeter Mathematics School
Exmouth Community College
Exmouth Town Council
Exwick Ark
First Federation
First Federation Trust
Fremington Parish Council
Frithelstock Parish Council
Great Torrington Academy
Great Torrington Town Council
Greenshaw Learning Trust
Hayes Road Academy
Holcombe Burnell Parish Council
Honiton Community College
Honiton Town Council
Horizon MAT
Ilfracombe Town Council
Ivybridge Town Council
Kings Academy
Kingsbridge Town Council
Kingsteignton Town Council
Launceston MAT
Learning Academies MAT
Learning Academy Partnership (South West)
Link Academy Trust
Lipson Academy
Littletown Primary Academy
Lynton & Lynmouth Town Council
Mid Devon District Council
Moretonhampstead Parish Council
Newton Abbot Town Council
North Devon District Council
Okehampton Town Council
Orchard Manor Academy
Osprey Learning Trust
Petroc
Plymouth Cast
Plymouth City Bus
Plymouth City Council
Plymouth College Of Art & Design
Plymouth University
Plympton Academy
Reach South Academy Trust
Riviera Education Trust
Seaton Town Council
Sidmouth Town Council
South Devon College
South Hams District Council
South Molton Town Council
Sparkwell Primary Academy
St Chistophers Primary MAT
St Christophers MAT
St Christophers Secondary MAT
St Margaret'S Academy
Staverton Parish Council
Stockland Academy
Stokenham Parish Council
Tarka Learning Academy Partnership MAT
Tarka Learning Partnership
Tavistock Town Council
Team MAT
Team Multi Academy Trust
Ted Wragg
Ted Wragg MAT
Tedburn St Mary Parish Council
Teignbridge District Council
Teignmouth Town Council
The Inspire MAT
Thinking Schools Academy Trust
Tor Bridge High Academy
Torbay Council
Torquay Boys' Grammar School Multi Academy Trust
Torquay Girls Academy
Torre Church Of England Academy
Torridge District Council
Totnes Town Council
TSAT
Uffculme Academy Trust
Ugborough Parish Council
United Schools Trust
Uplyme Parish Council
Ventrus MAT
Wave MAT
West Devon Borough Council
Westcountry Schools Trust
Witheridge Parish Council

Admitted bodies

Admitted Bodies

3 Rivers Development Ltd
Access Plymouth
Action For Children
Aspens Services Ltd
Babcock
Barnados
Betterclean
Biffa Waste Services Ltd
Bournemouth Churches Housing Association
Burton Art Gallery
Catered Limited
Chartwells (OLCS)
Churchills Services
Compass Group UK
Dame Hannah Rogers School
DCC South West Heritage Trust
DELT
Devon & Severn IFCA
Devon Norse Catering
Devon Norse Cleaning
Devon Norse FM
Devon Schools Leadership Services
Devon Wildlife Trust
Direct Clean Services (Exmouth CC)
DYS Space Ltd
Expedite Ltd
Fishkids
Fresha
Fusion Leisure
Healthwatch
Innovate
Interserve Catering Services Plymouth
Interserve Projects Ltd
Led Leisure Management Ltd
Libraries Unlimited
Livewell South West
Mama Bears Day Nursery
Millfields Trust
Mitie Plc (Devon)
NHS Care
NHS Devon LCB
North Devon Homes
North Devon Joint Crematorium
Peninsula Dental Social Enterprise
Pinnacle
Plymouth Active Life
Plymouth Citizen'S Advice Bureau
Plymouth Community Homes
Plymouth Learning Partnership (PLP)
Quadron Services Ltd
Red One Ltd
Servicemaster Clean Contr Serv
Sodexo
South West Highways
Specialist Fleet Services Ltd (NDDC)
Strata
Swisco Ltd - Tor 2 Combined All 3
The Deaf Academy
Torbay Coast & Countryside Trust
Torbay Community Development Trust
Torbay Economic Development Academy
Torbay Education Ltd
Torbay Youth Trust
University Commercial Services
Westward Housing Group
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	(Chairman)
	Councillor Yvonne Atkinson	
	Councillor Phil Bullivant	
	Councillor George Gribble	
	Councillor Henry Gent	
	Councillor Marcus Hartnell	
Representing Devon Unitary & District Councils	Councillor Judy Pearce	(Devon District Councils)
	Councillor Andy Lugger	(Plymouth)
	Councillor James O'Dwyer	(Torbay)
Representing Other Employers	Councillor Ray Bloxham	(Cranbrook Town Council)
Representing the Contributors	Michael Daniell *	(UNISON)
	Lorraine Parker Delaz-Ajete *	(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	(Devon County Council) (Chairman)
	Councillor Sara Randall Johnson	(Devon County Council)
	Carl Hearn	(Tavistock Town Council)
	Dominic Walshe	(PAPH Plymouth Learning Partnership)
Representing Fund Members	Julie Bailey	
	Andrew Bowman	
	Paul Phillips	
	Colin Shipp	
Independent Member	Robert Jeanes	
County Council Officers	Donna Manson	Chief Executive
	Angie Sinclair	Director of Finance and Public Value
	Mark Gayler	Head of Investments
	Martin Oram	Head of Financial Systems & Processes
	Rachel Lamb	Head of Peninsula Pensions

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 7th September 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: • 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 7th September 2023 that require any adjustment.

7. Contributions receivable

By category

2021/22 £'000		2022/23 £'000
(45,260)	Employees’ normal contributions	(49,905)
	Employers' contributions:	
(120,663)	Employers’ normal contributions	(131,956)
(7,509)	Employers’ deficit recovery contributions	(9,289)
(128,172)	**Total employers' contributions**	(141,245)
(173,432)	**Total contributions receivable**	**(191,150)**

2021/22 £'000		2022/23 £'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)
(1,409)	Resolution body	(1,628)
(173,432)		**(191,150)**

8. Transfers In From Other Pension Funds

2021/22 £'000		2022/23 £'000
(606)	Group transfers	-
(12,718)	Individual transfers	(13,253)
(13,324)		**(13,253)**

9. Benefits Payable

By category

2021/22 £'000		2022/23 £'000
168,391	Pensions	176,799
29,018	Commutation and lump sum retirement benefits	27,720
3,623	Lump sum death benefits	3,826
201,032		**208,345**

By type of employer

2021/22 £'000		2022/23 £'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
201,032		**208,345**

10. Payments To And On Account of Leavers

2021/22 £'000		2022/23 £'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 £'000		2022/23 £'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)	**Total before taxes**	**(39,553)**

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 managed by the Brunel Pension Partnership Ltd and the in-house Investment Team in the following proportions:

31 March 2022 £'000	%	Manager	Mandate	31 March 2023 £'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.	-	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)
	26,022	**39,998**

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	
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'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	
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'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
Pooled Investments							
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
Pooled Investments							
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			
-	-	-	Bonds	-	-	-
4,883,580	-	-	Pooled investments	4,780,960	-	-
453,953	-	-	Pooled property investments	455,507	-	-
-	-	-	Derivative contracts	2,063	-	-
-	76,045	-	Cash	-	62,365	-
838	-	-	Long Term investments	707	-	-
747	-	-	Other investment balances	642	-	-
-	18,350	-	Debtors	-	17,501	-
5,339,118	**94,395**	**-**		**5,239,879**	**79,866**	**-**
			Financial Liabilities			
(2,303)	-	-	Derivative contracts	-	-	-
-	-	(11,000)	Other investment balances	-	-	-
-	-	(8,228)	Creditors	-	-	(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 £'000		31 March 2023 £'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 £'000	As at 31 March 2023 £'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 value at 31 March 2023	Modified Duration of Portfolio	Effect on Asset Values	
			+1%	-1%
	£'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 value at 31 March 2022	Modified Duration of Portfolio	Effect on Asset Values	
			+1%	-1%
	£'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 receivable in year ending 31 March 2023	Effect on Income Values	
		+1%	-1%
	£'000	£'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 receivable in year ending 31 March 2022	Effect on Income Values	
		+1%	-1%
	£'000	£'000	£'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)
Philipines 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 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	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)
Philipines 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**	**Balances as at 31 March 2023**
				£'000	**£'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 £'000		2022/23 £'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.

	Discount rate	**Pension Increases**	**Salary Increases**
Assumptions at:	% p.a	% p.a	% 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 £'000		2022/23 £'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
18,350		**17,501**
	Current Liabilities	
	Creditors and Receipts in Advance	
(3,329)	Devon County Council	(3,226)
(4,899)	Other creditors	(3,688)
(8,228)		**(6,914)**

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 £'000	2022/23 £'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 £'000		2022/23 £'000
211	Salary, Fees and Allowances	224
-	Expenses Allowances	7
43	Pension contributions	44
254		**275**

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
		Infrastucture		
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

Contents

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 indictors 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

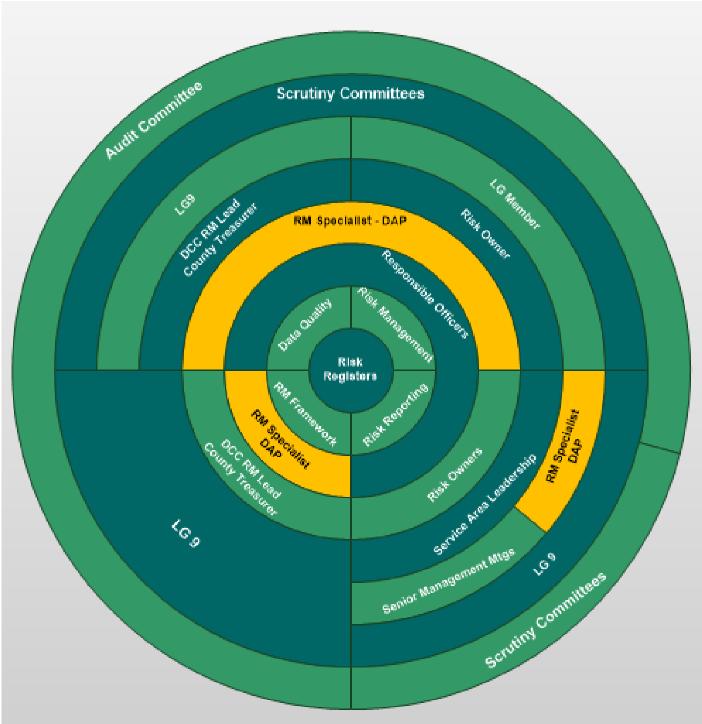
Risk is defined as an uncertain event or set of events, that should it occur will affect the Council's ability to achieve its objectives. Like all organisations, the Council faces a wide range of risks and these can occur at any level, from the strategic to day-to-day operations. It is not about managing 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 polices 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
CSW Group Limited	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.
DYS Space	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.
Libraries Unlimited	Libraries Unlimited is an independent staff and community owned charity, established in 2016. Libraries Unlimited is a company limited by guarantee with charitable status.
Norse South West	**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

28th February 2024

Councillor John Hart

Leader of the Council

28th February 2024

Approval of the Annual Governance Statement

I confirm that the Annual Governance Statement for 2022/23 is approved by the Audit Committee at its meeting on 28 February 2024.

Councillor Richard Scott

Chair of the Audit Committee, on behalf of Devon County Council

28th February 2024

DFP/24/38
Audit
28 February 2024

Auditor's Annual Report for 2020/21 and 2021/22

Report of the Director of Finance and Public Value and the External Auditor – Grant Thornton LLP

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

1) Recommendation

That the Audit Committee notes the Auditor's Annual Report for 2020/21 and 2021/22 financial years.

2) Background / Introduction

The Council's external auditor, Grant Thornton LLP, is required to provide an Auditor's Annual Report each year which confirms its Opinion on the Authority's financial statements and any significant matters in relation to the Authority's arrangements for securing economy, efficiency, and effectiveness in its use of resources.

The reporting requirements changed so that for 2020/21 onwards this information is presented in the form of an Auditor's Annual Report, replacing the previous Value for Money Conclusion report.

The Auditor reviews our arrangements under three main criteria:

- Financial sustainability
- Governance
- Improving economy, efficiency, and effectiveness

The timing of this report, which is a combined report in respect of financial years 2020/21 and 2021/22, reflects various factors causing delays in the ability of the auditor to issue the Opinion on the Statement of Accounts, for example national issues regarding the results of the triennial valuation of the Pension Fund (31 March 2022) and changes in accounting requirements for infrastructure assets. The report summarises the work undertaken by the external auditor and her final findings and recommendations in relation to value for money.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All
Cabinet Member for Finance: Councillor Phil Twiss

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Auditor's Annual Report on Devon County Council

Page 347

2020-21 and 2021-22

February 2024

Contents

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

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

Executive summary

Value for money arrangements and key recommendation(s)

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

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting residents and the local economy through the pandemic. In our view, the Council's changes to its governance arrangements and internal control systems were an appropriate response to the crisis situation caused by the pandemic. It demonstrated flexibility and adapted well, including working with partners such as the NHS. In 2021/22, the Council continued to deal with the impact of the pandemic but started to return to a more settled way of working. Financial and demand pressures continued to create a challenging environment and the foundations were being laid for some strengthening of financial planning work on a more cross functional basis.

Across the two years, we have identified two significant weaknesses, and twelve opportunities for improvement which are set out in detail within our report.

The significant weaknesses identified are:

- In 2020/21, the in year deficit for the Dedicated Schools Grant (DSG) was £29.2m, bringing the cumulative deficit to just under £49m at the close of the financial year. In 2021/22 the in year deficit was £37.5m bringing the cumulative deficit to £86m at the close of the financial year. The cumulative deficit was forecast to reach £138m by 2024/25. The revised deficit is forecast (as at January 2023 update) to reach £143.9 million by 2024/25, which is above the forecast set out in the recovery plan stated in the 'Safety Valve' intervention. The deficit is the subject of a formal Recovery Plan which aims to bring the DSG back to a balanced position over a five year time line. The Recovery Plan is ambitious and it is awaiting formal agreement by the Department for Education.
- The Council's children's social care services were rated as inadequate in an Ofsted Inspection Report dated January 2020. An Ofsted revisit for the Council's SEND service was completed in May 2022 and the overall conclusion was that insufficient progress had been made in addressing any of the significant weaknesses identified. There are, however, also some pockets of improvement. For example, the Monitoring visit in March 2022 is more positive in tone, noting that changes are starting to take effect and that a recent change in the senior leadership team is having an impact including the introduction of a new practice model supported by external partners. It notes that "elected members and corporate leaders now prioritise children and families and acknowledge the need to make changes more quickly". However, the inadequate rating shows that the Council is currently failing to meet minimum service standards in a core area and we therefore have to conclude that there is a risk of significant weakness in relation to children's social care services.

Executive summary

Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 is the first year that we are reporting our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2020/21 and 2021/22 because of delays in issuing our 2020/21 report and the timing of fieldwork. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified because of the DSG deficit and pressure on budgets	Significant weakness in arrangements identified and key recommendation made	Significant weakness in arrangements identified and key recommendation made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made.	No significant weaknesses in arrangements identified, but improvement recommendations made.	↔
Improving economy, efficiency and effectiveness	Risk identified because of the inadequate rating issued by Ofsted in respect of children services	Significant weaknesses in arrangements captured as a financial sustainability risk due to impact on the council's financial resilience and improvement recommendations made	Significant weaknesses in arrangements captured as a financial sustainability risk due to impact on the council's financial resilience and improvement recommendations made	↔

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

Overall, the Council has effective arrangements in place for managing financial sustainability although we identified one significant weakness in 2020/21 in relation to the arrangements for the management of the demand for Education Health and Care Plans (EHCPs) and independent placements in the High Needs Block. Comprehensive and effective financial planning and budget monitoring and reporting mechanisms are in place. We have made three improvement recommendations relating to:

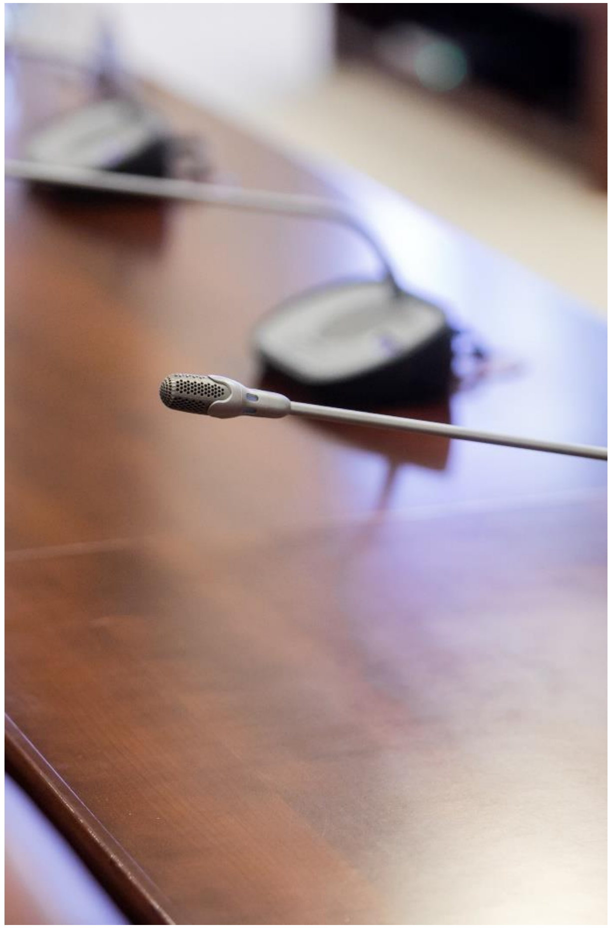
- the effectiveness of the Devon Education Forum and its role in supporting the effective delivery of the DSG Deficit Recovery Plan;
- the effective planning and delivery of the significant savings plans required to deliver balanced budgets over the next few years and the associated reporting; and
- distinguishing between statutory and discretionary spend.

Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements. It had sound arrangements in place to for ensuring that it made informed decisions and properly managed its risks. We have made four improvement recommendations to further develop the Council's strategic risk management approach, to develop reporting around the new Financial Sustainability Programme and to ensure that Member's Declarations of Interest are completed in line with the Members Code of Conduct.

Improving economy, efficiency and effectiveness

We have identified a significant weakness in relation to the ongoing Ofsted rating of 'Inadequate' for the Council's children's social care services. We have also identified five areas for improvement. We recognise that the Council plans to further improve its arrangements by refreshing the use of benchmarking and completing the work on developing a workforce strategy and we have made improvement recommendations which support the Council's direction of travel in these areas. We have also recommended that there is an opportunity to further develop the performance management arrangements by linking this to the Council's strategic priorities and work with significant partners, robust monitoring of delivery partners and the need to balance vacancy savings with procurement resourcing needs.



Key recommendations

Financial sustainability

1	**Recommendation**	The Council needs to agree and implement the DSG Recovery Plan. Delivery must be closely monitored and prompt corrective action taken to ensure that plans remain on track. This work needs to be carried out in conjunction with the Devon Education Forum who therefore need to 'buy in' to the action plans and we have made separate improvement recommendation on this.
	Why/impact	To ensure that the mitigation plans achieve the objective of reducing the continual increases in overspending whilst continuing to provide appropriate support for SEND children and young people.
	Summary findings	The DSG deficit is forecast to reach £138m by 2024/25. By this time the plan is that the schools will be operating within the funding envelope available and therefore the deficit will not increase further. This is a mitigated deficit and reliant upon the delivery of the Deficit Recovery Plan which is in the process of being agreed with the Department for Education. Dedicated Schools Grant (DSG) - highlights the key risks that the "service is unable to contain costs within the allocated budget" and that "management action plan identified for 2021/22 has seen significant slippage due the pandemic and delays in getting the projects underway". There is also a risk of "Unexpected demand as new high-cost children and young people move into the area".
	Management comment	We recognise that our intended approach did not fully deliver in year. Therefore additional rigour will be applied to future processes included more robust modelling and analysis, involving a wider breadth of officers.

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

Key recommendations

Financial sustainability

2	**Recommendation**	The Council needs to ensure that the direction of travel for children's social care services continues in the right direction and that the planned new practice model and action plans are implemented and monitored. The ambitions in the strategic plan should be connected to clear goals and actions.
	Why/impact	To ensure that appropriate quality services are provided to support children in Devon.
	Summary findings	The Ofsted inadequate rating shows that the Council is currently failing to meet minimum service standards in a core area and we therefore have to conclude that there is a risk of significant weakness in relation to children's social care services.
	Management comment	The recommendations are noted. The Council has taken steps to bring new leadership into Children's Services whilst also focussing all services across the Council onto supporting Children's Services to drive improvement as a matter of urgency.

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

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

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

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

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

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

Financial sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 9 to 34. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

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

Outturn 2020-21 and Covid 19 arrangements

The 2020-21 General Fund outturn position, after taking into account the costs of the pandemic, was a £0.35m underspend. Devon County Council received £99.4 million of additional Covid-19 support which has helped towards balancing the budget for 2020-21. £74.2 million has been spent in 2020/21 and £25.2 million carried forward into 2021/22.

The Council maintained effective controls around expenditure and procurement through its normal financial control processes and the introduction of a pandemic funding protocol. This was developed out of the Pandemic Incident Management Team to ensure swift decision making in line with central government expectations. Normal procurement rules were suspended to support service areas in focussing on delivery but contract extensions or renewals granted were assessed and tracked by the strategic procurement team.

Adult Social Care had a net underspend of £0.6m whilst Children's Services were overspent by £1.8m, excluding the Dedicated Schools Grant (DSG). The shortfall on the DSG was £29.2m bringing the cumulative deficit on the High Needs Block to just under £49m.

Contributions to reserves were made including £4.8m to the budget management reserve. Overall earmarked reserves increased by around £17.5m to just under £137.5m. The capital programme for the year was £200m compared with spend of £134m and slippage was closely monitored and reported throughout the year. The slippage in the capital programme was carried forward into the following year (£45m) and the remainder into the financial year beyond. £2.2m was released from the capital programme as an underspend.

Overall, we consider that the Council has largely demonstrated sound financial management arrangements of its revenue and capital budgets across the year despite the challenges of Covid, although the deteriorating DSG position is an exception to this and is considered as an area of high risk and a risk of significant weakness in terms of financial stability. However, the Council is aware of this and is actively working to agree a recovery plan, through the "Safety Valve" mechanism with the Department for Education and a series of action plans to address demand management and service delivery in Children's Services.

Outturn 2021-22

In 2021-22, the Council's outturn was a net overspend of £3.3m against the revenue budget due largely to overspends in Adult Care (£3.4 million) and Health and Children's Services (£9.8m of which £7.2 million relates to Children's Social Care, excluding the Dedicated Schools Grant (DSG.). These numbers result from a mix of over and underspends, notably

- pressure on costs and an increase in nursing placement volumes; and
- lower numbers of looked after children but with more complex care arrangements and increased average cost, greater use of agency staff due to the high vacancy rate and personalised school transport arrangements.

The deficit was met with a transfer of £3.3m from the Budget Management Reserve. Overall, earmarked reserves reduced by around £8.8m to just under £128.7m. The capital programme approved was a total of £218.3 million (including nearly £42 million brough forward from the prior year) with expenditure of £144.2 million, an underspend of just over £74 million. Slippages are attributable to difficulties sourcing materials and labour, delays in tenders and procurement and general post pandemic recovery.

The DSG position on the High Needs Block is an overspend of £37.5 million this year.

The cumulative deficit at 31st March 2022 reached £86.5 million and continues to be an area of concern and a risk of significant weakness. The recovery plan with DfE is not yet in place and the Council is continuing with its internal action plan.

Other areas delivered underspends the largest of which was an underspend on Digital Transformation due to delays in the ICT Roadmap.

Financial planning

Pressures on budgets and the achievement of savings plans are increasing in the short term. These pressures are combined with the increasing cumulative DSG deficit. The budget books clearly identify the pressures on funding, the requirements for savings and the uncertainty surrounding future settlements. Each service area identifies, at a high level, the levels of savings needed and the cost pressures identified. In particular the Medium Term Financial Strategy for 2022/23 states that it "is one of the most challenging the authority has faced" and that the "level of investment is unprecedented". It is clear that the authority recognises the scale of the challenge. We comment below on the move to change the approach to financial planning, which began in 2021/22, and the establishment in June 2022, of the Council's Financial Sustainability Programme.

2021/22 Medium Term Financial Strategy

For the budgeting round completed during 2020/21, looking ahead to 2021/22, delivery of a balanced budget identified that savings of £11.6m were required. A revenue budget of £578.482m was set, with inflation and cost pressures of £47.3m identified. Between the setting of initial budget targets in December 2020 and the Cabinet meeting on 13th January 2021, the Covid 19 situation changed with the identification of a new variant, resulting in a review of the targets set in December and demonstrating the ongoing pressures in relation to the pandemic and the Council's ability to respond quickly.

The 2021/22 Medium Term Financial Strategy (MTFS) identified significant savings to be delivered over the short to medium term, due to shortfalls in funding. Savings targets were identified as follows and have increased considerably compared with the previous MTFS, particularly for the financial year 2022/23:

- 2022/23 £47m (an increase of £29.2m)
- 2023/24 £18.3m (an increase of £5.2m)
- 2024/25 £13.2m

The 2021/22 MTFS is acknowledged as "one of the most challenging the authority has faced". As government funding was unknown beyond the one year time frame, the MTFS has been developed on the assumption of core funding increasing by inflation which we consider an acceptable assumption in the circumstances.

The DSG deficit is highlighted as a major concern. By 2024/25 the deficit is forecast to reach £138m but at this time the plan is that the schools will be operating within the funding envelope available and therefore the deficit will not increase further. This is a mitigated deficit and reliant upon the delivery of the Deficit Recovery Plan which is in the process of being agreed with the Department for Education (DfE).

2022/23 Medium Term Financial Strategy

For the budgeting round completed in 2021/22, in order to set a balanced budget for 2022/23, the Council planned a significant level of savings compared with prior years and a significant contribution from reserves.

Extract from Budget Book 2022/23 Medium Term Financial Strategy (MTFS)

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget savings required/(Surplus)	**0**	**35,482**	**3,062**	**4,635**
Savings and additional income	(38,741)	(9,516)	(8,836)	(1,729)
Further savings required	0	(35,482)	(3,062)	(4,635)
Total Savings to be delivered	(38,741)	(44,998)	(11,898)	(6,364)
Reserves and Balances				
Use of Reserves	(6,949)	(6,478)	(4,062)	(4,000)
Contribution from Reserves	(22,938)	0	0	0
Transfer from Budget Mgt Reserve to Working Balance	(1,000)	0	0	0
Transfer to Working Balance from Budget Mgt Reserve	1,000	0	0	0

The MTFS identified significant levels of savings and additional income required in:

- 2022/23 (£38.7m, a reduced target compared to the £47m in the prior year MTFS); and
- 2023/24 (£45m, £26.7m higher than the previous MTFS);

together with the use of around £30m (c. 24% of the earmarked contingency reserves as at 31/3/22) of reserves, to deliver a balanced budget.

This will bring reserves down to around over £80m (with £50m remaining in the Budget Management Reserve). The most significant contributions from reserves were planned to be £12m from the Budget Management Reserve to support ongoing revenue expenditure, £2.8m for invest to save initiatives, and £7m from the Business Rates Pilot Reserve for Children's invest to save initiatives.

A one-off additional contribution from the NHS of £8m to support adult social care was also included in the budget, which has helped to mitigate budget pressures for 2022/23 but will further increase pressure on budget savings in future.

The Council's Treasury Management Strategy also highlights the growing pressures on the Council's cash balances, in part as a result of the SEND deficit.

<u>DSG Recovery planning 2020/21 and 2021/22</u>

The impact on the financial sustainability of the Council is highlighted and is clearly understood. The Recovery Plan identifies that urgent action is required to reduce the demand for Education Health and Care Plans (EHCPs) and independent placements in the High Needs Block. The plan to achieve this is based on implementing a revised service delivery model and earlier intervention to reduce the demand for EHCPs. A cost reduction of £8.7 million was planned for 2021/22 by reducing independent sector core costs, reducing demand for EHCPs, commencing outreach initiatives and SEN support and the review of joint funded placement costs.

In addition, three special schools are planned to reduce the demand on independent placements and there is also an intention to create 80 places with support centres across the county to allow more localised support and access for more complex needs within the special school settings. A number of risks are highlighted. This includes the reduced numbers of EHCPs, the fact that funding beyond 2022/23 has not been confirmed and therefore may vary from the assumptions used, that new special schools will come online as currently planned and, of course, the ongoing impact of the pandemic remained uncertain.

Projects made a slow start with delays in delivering the expected outcomes attributed to the timing of the start coinciding with the pandemic. The main reasons given for delays in implementing action plans (SEND100, special schools outreach work) was a combination of recruitment issues (e.g. teaching assistants) and pandemic impact (absences in schools due to illness, stress, long covid meaning staff need to be in school not working on outreach).

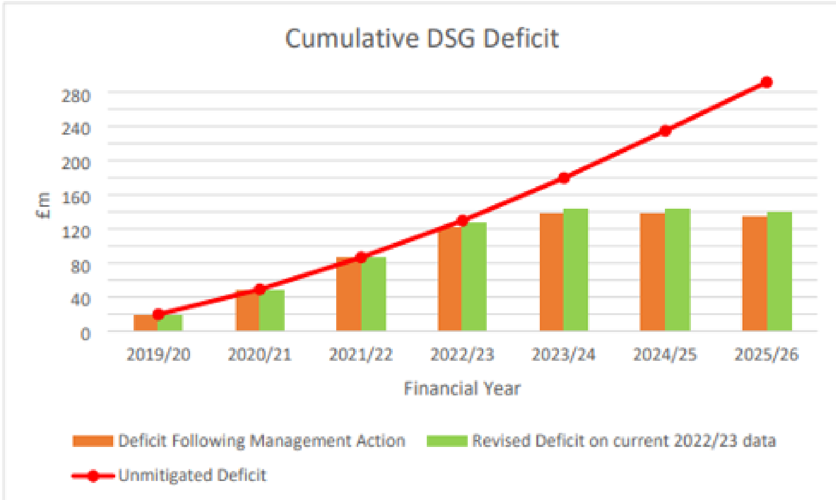
A recovery plan is under negotiation with the possibility that the deficit will be addressed through a combination of 'spend to save' revenue funding from the Department for Education (DfE) and the use of a Capitalisation Direction (through the 'Safety Valve' intervention). The Council is awaiting final conclusions from DfE and HM Treasury.

The Devon Education Forum is the body responsible for "changes to the scheme of financial management". Our review of the minutes from these meetings in both 2021 and 2022 identified some unease regarding:

- planned savings being unrealistic on an annual basis
- the timeliness of bringing the deficit management plan to the forum
- savings in key areas where members would not wish to see savings or changes to service.

In November 2022, our review of meeting minutes noted deep concern regarding the forecast in year DSG deficit.

Pressures on budgets and the achievement of savings plans are increasing in the short term. These pressures are combined with the increasing cumulative DSG deficit, which has continued to deteriorate. The revised deficit is forecast (as at January 2023 update) to reach £143.9 million by 2024/25, which is £4.9 million above the forecast set out in the recovery plan stated in the 'Safety Valve' intervention.



However, the Schools Finance Group (sub-group of the Forum) has had input into the Recovery Plan and the Chair of the Education Forum described a willingness to work together. She also acknowledged a shift in the dynamics due to an additional member of (interim) staff in post (the role was extended from six to twelve months). We understand from officers that revised governance, communication and decision making arrangements are being introduced alongside the projects. Subsequently there has been a further shift in the management arrangements with the Head of Education role being split between 2 part-time secondees who are themselves Academy heads effective from July 2022 for 12 months.

The arrangements in place seem appropriate although the nature and size of the Forum's membership create a risk that it is less effective than it could be. The effectiveness of the engagement between the Forum, school and college leaders and officers will be fundamental to ensuring the delivery of the Recovery Plan (see page 16 – Improvement Recommendation 1). However, the evidence so far is that this is not yet delivering.

Looking further ahead – 2023/24 Medium Term Financial Strategy

For the budgeting round completed in 2022/23, in order to set a balanced budget for 2023/24, the Council has set itself a significant savings target of over £47 million. In addition, Adult Social Care faces a "considerable operational challenge" to deliver budget savings, alternative funding and additional income of £30.5 million. The budget also includes £39.6 million of funding from the Better Care Fund which is subject to agreement with NHS partners. A series of observations and recommendations from the Scrutiny Committee's review of the budget proposals accompanied the Budget Book to the February 2023 Cabinet meeting and included challenging the "realism of achieving the savings outlined across the budget" and a request for an initial three month trial of monthly monitoring reporting in specific areas of Childrens' Services and regular monitoring reports on Adult Social Care, including benchmarking with other local authorities where appropriate. We consider that these requests would strengthen the existing governance arrangements and we have commented elsewhere (see page 14) on ensuring appropriate visibility of savings delivery (see page 17 – Improvement Recommendation 2).

Projected reserves and balances to March 2027 show that Earmarked Reserves are expected to fall from £109.7 million at March 2023 to £81.8 million by March 2027. Against the total forecast deficit in the High Needs Block of £153 million by March 2024 we note that the deficit will be significantly in excess of the Council's General Fund and Earmarked Reserves balance. This further supports our assessment of a risk of significant weakness in relation to the DSG deficit.

The Council announced an 'Eight Point Plan' in September 2022 to reduce expenditure and issued a formal consultation notice (HR1) that it is considering redundancies as part of a budget update from the interim Chief Executive in November 2022. A recruitment freeze was announced in December 2022. These difficult decisions demonstrate that the Council is taking the threats to its financial sustainability seriously.

We conclude that the Council is fully aware of the pressures it faces in the short term, which are in many ways a continuation of existing issues, but the scale of savings required represent a continuing and significant challenge for the Council.

Budget process

The Council has a comprehensive budgeting process in place which includes discussion and review with budget holders and a structured process involving the finance team, the leadership group, scrutiny committees, portfolio holders, the leader and cabinet. Budget targets for the start of each financial year are set initially during December and are informed by discussions which take place throughout the Autumn.

A process of budget challenge meetings is used to review and scrutinise budget plans by officers and this also takes place in December. The report to the Scrutiny Committee is accompanied by commentary from the Leadership Group, for example, concerning significant financial pressures in Adult and Children's Services and highlighting the shortfall and grant funding related to Special Educational Needs and Disabilities (SEND). Key expenditure drivers, cost pressures and savings planning are incorporated into the financial planning process.

The Budget Book includes thorough risk analysis and mitigations and includes a specific section on volatile budgets (e.g. Adult Care and Health, Children's Services). It also identifies changes in each service area which include inflation, pay inflation (in particular National Living Wage pressures), demographic changes, demand pressures and the net cost of additional investment in contract and market management (in Adult Commissioning and Health). The service area commentaries in the Budget Book include reference to statutory requirements but it would not be clear to local residents that there is a difference between statutory and discretionary expenditure and which decisions are made on the basis of choice, in line with Council plans and priorities, and which are mandatory (see Recommendation 3 – page 17). The Budget Book also makes some reference to the Council's strategy and priorities but budgets are shown by service area, not linked to priorities. Identifying cost pressures, savings planning and driving further efficiencies are at the core of the MTFS which picks up the savings plans and pressures in the annual budget and looks forward from 2020/21 to 2023/24 and from 2021/22 to 2024/25.

Uncertainty around future funding means that the MTFS is based on assumptions. In 2020/21 one key assumption is that the halting of the reduction in core funding continues and in 2021/22, that core funding will increase by inflation annually. It also notes that the assumptions need to be revisited in the coming months and years. Without further information available at the time for planning purposes we conclude that these are not unreasonable assumptions.

Given the current inflationary pressures, which have been growing since Autumn 2021 and the assumptions underpinning 2022/23 budgets which were agreed in February 2022, sensitivity analysis has become more an area of focus. The 2022/23 Budget Book includes price pressures as a specific area of risk noting extra cost risk and the potential volatility of utilities and the impact on labour supply and costs in the care sector. The budget also uses £1m from the Budget Management Reserve to increase the County Fund General Balance to provide "additional headroom". Other work has taken place across the service areas, supported by the Smarter Devon team, to support analyses of trends, pressures, inflation, etc (for example in Adult Social Care) and a budget sustainability exercise was also completed which considers spend and cost drivers across a five-year period.

Savings plans

The Council monitors the delivery of savings plans on a monthly basis by the Budget Management Group in Finance, using the Savings Plan Tracking spreadsheet.

There is a process of regular bi-monthly reporting to elected Members on revenue budgets, the capital programme and savings plans. Additionally the finance team liaise with service area managers, portfolio holders and the Council Leader.

Savings of £7.1m had been included in the 2020/21 budget but only £1.9m were achieved due to the Covid 19 pandemic. £5.4m of savings were concluded to be unachievable (Children's Services). The savings plan in place for 2021/22 was, at the time of our review, forecast to deliver £9.9m of £11.6m, with £2m concluded to be unachievable and written out.

	2020/21 original savings (£000)	2021/22 original savings (£000)	Total (£000)
Savings planned	7,140	11,630	18,770
Savings written out	5,410	2,028	7,438
Delivered or achievable	1,918	9,902	11,820

The annual year-end financial outturn reporting shows over and under spends against each service area but there is no published overall summary, aligned to the Savings Plan tracking. This makes it difficult to identify the full extent of how well the Council has delivered its savings plans each year (see page 16 – Improvement Recommendation 2).

The Council was testing its 'Doing What Matters' approach through some pilot projects in different service areas during 2020/21. These are reported very positively, delivering better outcomes for residents, greater staff satisfaction and with some reports of reduced costs. However, there was something of a hiatus in the work due to the pandemic and it was not clear how the work would be rolled out more widely. Officers acknowledged that the approach and potential for savings creation needed to be linked to budget planning and some initial conversations with Finance had taken place in but there was not yet any formal link which was planned to be made during the budget planning in 2022/23. However, the Council has subsequently ended the Doing What Matters approach and the Financial Sustainability Programme was launched in June 2022, following a period of development and change in the budget planning process.

Pension fund arrangements

We considered at a high level how the pension fund:

- plans and manages its resources to ensure it can continue to deliver its services
- ensures that it makes informed decisions and properly manages its risks, and
- uses information about its costs and performance to improve the way it manages and delivers its services.

The pension fund has comprehensive and published governance arrangements in place. It is overseen by the Pension Committee and the Pension Board. The Pension Committee is the decision making body for the pension fund and is supported by the Council's Head of Investments and his team. A contributions funding strategy and an investment strategy statement are in place . The investment strategy is reviewed by external specialists every three years, most recently in January 2022 and concluded that the fund has a strong funding position and that expected returns can be achieved. The pension fund also receives regular quarterly updates from the actuary, in addition to the formal three yearly review. The fund maintains a risk register and is also subject to internal audit activity (around 80 days per year). Of the nine internal audit reports completed during 2020/21 all opinions were either substantial (6 reports) or reasonable (3). In 2021/22 of the eight internal audit reports completed five recorded a substantial opinion, two reasonable and one advisory. The annual internal audit opinions in both years were "Substantial assurance". The Council is actively working to manage costs and performance. It is part of the Brunel Pension Partnership, a company set up with a number of local government pension scheme partners with a view to delivering the council's investment strategy and reducing management costs. Progress on achieving the break-even point is slightly slower than expected and has slipped from 2021 into 2022. The Council also obtains benchmarking information through membership of an external consultancy (PIRC).

Improvement recommendations

Financial sustainability

1	**Recommendation**	The Council should complete an operational effectiveness review of the Devon Education Forum.
	Why/impact	The effectiveness of the engagement between the Forum, school and college leaders and officers will be important to ensuring the delivery of the Recovery Plan.
	Summary findings	The Devon Education Forum is the body responsible for "changes to the scheme of financial management" but we identified some unease regarding the delivery of the Recovery Plan. However, the Schools Finance Group (sub-group of the Forum) has had input into the Recovery Plan and the Chair of the Education Forum described a willingness to work together. She also acknowledged a shift in the dynamics in recent months due to an additional member of (interim) staff now in post (the role has been extended from six to twelve months). The arrangements in place seem appropriate although the nature and size of the Forum's membership create a risk that it is less effective than it could be. (See page 13)
	Management comment	Management recognises the recommendation and will give due consideration to the objectives, benefits and responsibility for a review of the operational effectiveness of the Devon Educational Forum, at the next scheduled evaluation of the Authority's internal audit plan.

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

Improvement recommendations

Financial sustainability

Page 362

2	**Recommendation**	The Council needs to ensure that 1. robust savings plans are made to deliver <u>recurrent</u> savings and that implementation is properly tracked and monitored, with actions taken to ensure that the plan remains on track 2. progress on savings delivery (for both service area budgets and the Financial Sustainability Programme) are reported to Members with brief explanations of variances and changes.
	Why/impact	To ensure that the Council achieves a balanced budget in future years. To strengthen the existing governance arrangements around savings delivery and to ensure appropriate visibility of savings delivery
	Summary findings	The Council continues, along with local government bodies nationally, to face unprecedented pressures on budgets. In order to set balanced budgets for 2022/23 onwards the Council plans a significant level of savings compared with prior years which, without the further use of reserves, is a significant step up from prior years. We noted that the Scrutiny Committee's review of the 2023/24 budget proposal included challenging the "realism of achieving the savings outlined across the budget" and a request for monitoring reporting in specific areas, including benchmarking where appropriate. (See page 13 and page 15)
	Management comment	The Council has taken action to establish a cross organisation Financial Sustainability programme which involves senior officers designing, testing, and scrutinising savings and income proposals and income solutions across different directorates for added assurance. We have also strengthened accountability for savings delivery and financial management at the Council's Strategic Leadership Team. Performance against budget is carefully monitored on an ongoing basis which reflects delivery against estimates and assumptions for all spend and income including anticipated savings.

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

Improvement recommendations

Financial sustainability

3	**Recommendation**	The Council should distinguish between statutory and discretionary spend to identify choices being made by the Council in what it chooses to fund and why.
	Why/impact	We believe that this would enhance transparency for local residents by clearly identifying statutory compared with discretionary spend in line with Council priorities.
	Summary findings	The service area commentaries in the Budget Book include reference to statutory requirements but it would not be clear to local residents that there is a difference between statutory and discretionary expenditure and which decisions are made on the basis of choice, in line with Council plans and priorities, and which are mandatory. The Budget Book also makes some reference to the Council's strategy and priorities but budgets are shown by service area, not linked to priorities. (See page 14)
	Management comment	We do not recognise a binary differentiation between statutory and non-statutory services. The efficient delivery of services in order to fulfil the statutory duties of a county council is a complex matter with only a hypothetical distinction between statutory and non-statutory services or degrees of service provided. The Council has processes in place so that in each budget round, it can carefully consider the efficiency and effectiveness of all services that it provides, versus the available funding with which to pay for those services, informed by the statutory duties of the Council, its partnerships with other public sector bodies, and its wider responsibilities to the people of Devon.

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

Governance

We considered how the Council:

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

Covid 19 arrangements

Whilst decision making has had to be reactive in response to the pandemic, this has been done in a structured way with a well managed strategic/tactical/operational response structure and all decisions tracked, monitored and reported.

Service Incident Management Teams (SIMT) were set up in service areas. These were overseen by the tactical level Pandemic Incident Management Team (PIMT) which in turn reported into the Leadership Group (at the strategic level) and in turn to elected Members. The Register of Decisions taken by Members under the urgency provisions or delegated powers are available for inspection on the website in line with the Council's Constitution and Regulation 13 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

The Council's committee decision making arrangements continued given the fact that powers were received to enable remote meetings. The Monitoring Officer and Democratic Services team concluded that no amendments were needed to the constitution and the full committee structure continued throughout.

Comprehensive records of decision making and policy or process changes were kept. A log of Finance Policy and Process Changes was established with effect from 24th March 2020. It documented the change implemented, the decision making body, any reviews, actions and the responsible officer. For example, the Leadership Group changed the delegated authorities on 24th March and this was reviewed in May and the levels of delegated authority were revised downwards.

Internal audit plans were adapted in 2020/21 to provide Covid support activities (including debrief and financial decision reviews). The Internal Audit Annual Report (June 2020) identifies a rating of "Limited Assurance" in relation to the Covid Financial Decision Reviews but acknowledges that the "Authority quickly recognised that its pandemic risk planning and business continuity arrangements were insufficient and set in place new arrangements and governance processes". This demonstrates that the Council were able to learn and adapt their arrangements on a timely basis. Internal Audit provided assurance across a number of topics including CHAPS payments, new process for purchasing from new entities and the use of procurement cards. In relation to revised payment procedures resulting from the Covid pandemic these were found to be "sound, effectively controlled and regularly reviewed by the Finance Leadership Group". A Reasonable Assurance rating was given to Financial Services.

Subsequently the Council demonstrated its interest in further learning as a comprehensive debrief and lessons learned review was undertaken, which generated 399 recommendations across 19 teams.

Overall we have concluded that appropriate governance arrangements were put in place in response to the Covid-19 pandemic.

How the Council monitors and assesses risk

We consider that the Council maintains a comprehensive risk management system. It is supported and facilitated by a risk management team, part of the Devon Audit Partnership. The Core Risk Register includes all service area risks and scores them using the methodology set out in the Risk Management Strategy and Policy.

The Policy provides a clear framework for the management of risk. A Corporate Risk Management Group (CRMG) reviews the Council's "top" risks recorded in the risk register and considers whether these accurately reflect the top risks that the Council faces.

Risk is reported to elected Members through the Scrutiny Committees, which receive regular reports specific to their areas of oversight, and the Audit Committee which receives updates including changes, the movement of risks, and (since early 2021) members have had access to a Power BI dashboard directly from the Risk Register. A Risk Management Annual Report is also provided to the Audit Committee showing an overall summary of the current risk position, RAG (Red/Amber/Green) rated risks by service area and details of the highest rated risks. Changes in risk scores, risk mitigations and controls, risk owners and direction of travel/trend are also highlighted but sources of assurance are not reported (see Recommendation 5 – page 23). However, we note the good practice of including an assurance map in the Internal Audit Annual Audit Reports in both 2020/21 and 2021/22. A key internal audit review of Risk Registers across the Council concluded that sound systems are in place and robust procedures ensure that key risks are managed and mitigated appropriately. The Risk Management Policy & Strategy was updated, endorsed at the June 2022 Audit Committee and includes all the expected topics including risk registers, scoring, tolerance thresholds, responses and appetite definitions. Among a number of updates to risk management arrangements in 2021/22 we note the development of a specific Budget Book risk register.

The risk management system is structured by service areas which means that, although some of the risks are cross cutting in nature, they are linked to one service area rather than to strategic priorities i.e. climate change is linked to planning, transport and environment. We believe that the risk management arrangements could be further strengthened by aligning risks to strategic priorities.

The Council has an effective internal audit function in place to monitor and assess the effective operation of internal controls. Internal audit planning is linked to the risk register and developed in consultation with service areas and senior management in place.

In 2020/21 the plan was adapted to respond to the Covid pandemic meaning that the days delivered compared with the previous plan were reduced but that additional Covid related work was completed. The overall audit opinion for 2020/21 is one of "reasonable assurance". This means that there is "a generally sound system of governance risk management and control.

The Annual Report shows a mixture of audit ratings from 'No Assurance /Fundamental Weakness' to 'Good' and 'Substantial' opinions. The direction of travel is positive in all the 2020/21 audits reported with only one exception (the Learn Devon contract which has since been addressed). We consider that the mix of audit opinions reflects a risk based approach meaning that internal audit work is directed appropriately. For 2021/22 Internal Audit's Opinion repeats the prior year's "reasonable assurance" opinion with 80 of 83 audits fully completed and only one red rated report (Learn Devon), for which a follow up had been completed and subsequently reported as Reasonable Assurance with an improving direction of travel.

An external quality assessment which reported in November 2021 confirms that the internal audit service 'generally conforms' with Public Sector Internal Audit Standards (PSIAS). This means that the internal audit activity has a charter, policies and processes that are judged to be in conformance with the professional internal audit standards and the code of ethics.

The Council also has adequate arrangements in place in respect of the prevention and detection of fraud. This includes the identification of the prevention and detection of fraud as a separate risk in the Risk Register (since1 April 2020) with regular (quarterly) reviews.

Through the Council's internal audit arrangements (Devon Audit Partnership) the Council has access to a team of counter fraud specialists. The Team Manager is a named contributor to The 'Fighting Fraud and Corruption' document produced by CIFAS (Fraud Prevention | Identity Fraud | Protective Registration | Cifas). A dedicated fraud email address and phone line for referrals exist. A Whistleblowing Policy is included in the Council's Constitution (s5) and so includes a Members' Code of Conduct, and guidance on sexual harassment, conflict of interest, Officers' Code of Conduct.

Budget setting process

The Council approaches its budget setting in an multi layered iterative way, with input and review by multiple stakeholders including the service areas and elected Members. Challenge and formal scrutiny is built into the process through reporting to the Corporate Infrastructure and Regulatory Services (CIRS) Scrutiny Committee and the use of 'budget challenge' meetings between senior managers and finance. The formal development of budget plans is documented in the Budget Book and shows how the proposals pass between the Cabinet and Scrutiny Committees between December and February. Consultations with the business community, older people, voluntary sector and trade union representatives are also reported. The budget is developed alongside the Medium Term Financial Strategy and the Capital Programme which are incorporated together with the budget in what is known as the 'Budget Book'.

In 2021/22, a change in the overall approach to budget setting started to take place. In the Autumn of 2021, the Council's Leadership Group were asked to consider options for closing the budget gap. This led to closer scrutiny in each service area and the establishment of a new "Tactical Leadership Group" which considers overall priorities. The Organisation Development team supported the work. In early 2022 feedback from this approach was used to try and improve the financial planning process by building shared trust, ownership and shared accountability. The budget issues raised in Childrens Services early in 2022/23 suggest a lack of ownership by key stakeholders. However the senior management in Childrens Services has changed during 2022/23 and the Financial Sustainability Programme launched early in 2022/23, demonstrates that the Council is looking to drive a more joined up, cross cutting approach to financial planning but it needs to ensure that work done to build trust and collective ownership delivers results.

Budgetary control

A sound system of budgetary control and oversight is in place. A regular system of review by the Budget Management Group, with bi-monthly reporting to Cabinet, is used to monitor financial performance. The budget monitoring timetable is clearly set out on a bi-monthly basis. The regular budget monitoring reports provide detailed commentary and line by line analysis of each budget by service area, together with variance analyses and forecast outturns. Key points and issues are noted by service area demonstrating that variances are being monitored on a timely basis in year with budget holder accountability and mitigating actions being considered and developed.

The Director of Finance's Budget Monitoring reports to Cabinet (at the close of months 4 (July), 6 (September), 8 (November) and 10 (January)) provide a commentary by service area detailing forecast variances with narrative explanations provided in sufficient detail to enable Cabinet Members to raise appropriate questions. However, we note that savings in the 2022/23 Financial Sustainability Programme (commencing from June 2022) have been added in summary format. The information is very high level and identifies broadly the types of savings being made but it does not give any more detailed commentary. We believe that there is an opportunity to improve the visibility of savings delivery and we have included an improvement recommendation on this. See page 16.

Treasury management reporting on the Council's investments and borrowing is sufficient and takes place less frequently and is reported to the CIRS Scrutiny Committee in June (annual report) , November (mid-year report) and January (Strategy, as part of financial planning) each year.

Decision making

Appropriate decision making processes are in place (see also our commentary on Covid 19 arrangements above – page 18). There are multiple mechanisms to ensure that decision makers are well informed. Committee papers contain detailed information and, prior to decisions reaching committee, there are both formal and informal opportunities for officers and elected Members to consider information. These include regular Leadership Group meetings, review by the relevant Scrutiny Committee and liaison between officers and portfolio holders, with frequent informal discussions and challenge about proposals and requests for information. Officers consider that Members are engaged and constructive, can be appropriately challenging and that the tone of the discussions is reasoned and mature.

Where service redesigns are proposed we obtained evidence that appropriate consultation with users has been completed (e.g. as in the example of the North Devon Link Service). External stakeholders consultations are included as part of the Budget Book development (January annually – business, voluntary sector, trade unions).

We consider that the Council's officers demonstrated a positive 'tone from the top' with appropriate levels of openness, transparency, personal ownership and engagement in our dealings with them. This is supported by a set of Core Principles and Behaviours which provide a framework for expectations on how staff should act and behave. Officers consistently spoke of constructive working relationships with colleagues and elected Members. The Audit Committee provides effective challenge of officers.

Monitoring standards

The Council has appropriate arrangements in place to monitor and ensure compliance with appropriate standards. It achieves this through various mechanisms and policies to staff and elected members such as the agreed Codes of Conduct, an Acceptable Behaviour policy issued to new joiners, a Gifts and Hospitality policy included in the Financial Regulations and the Standards Committee. The Annual Reports of the Standards Committee for 2020/21 and 2021/22 do not identify any significant issues. We note that subsequently, in May 2022, a revised Code of Conduct was developed which demonstrates that the Council has mechanisms in place to ensure that appropriate standards are maintained.

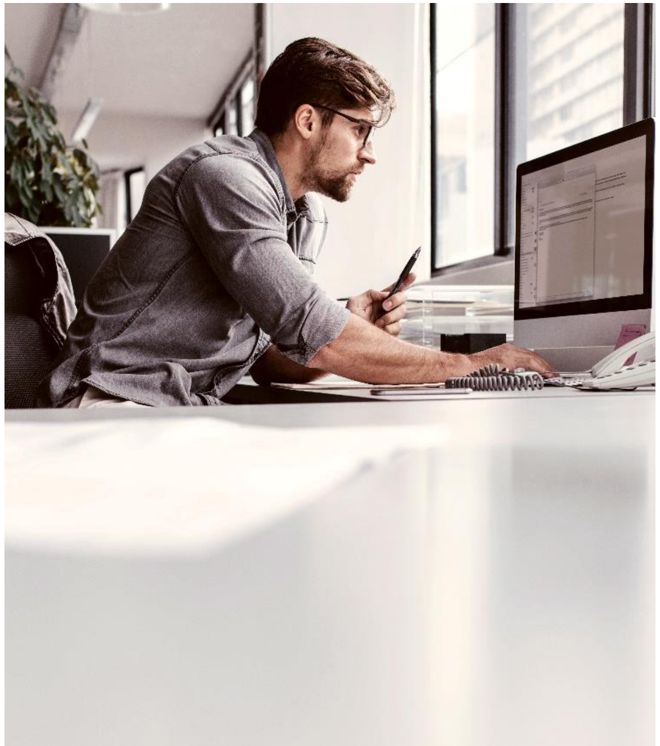
One member of staff left with a compromise agreement around September of 2020 in relation to Children's Services. Given the challenges in Children's Services we have concluded that this is unlikely to be indicative of a widespread governance failure, but more likely to relate to the significant challenges of the task at hand. We understand from officers that an additional post was subsequently created to support children's social work.

Members' registers of interests and gifts and hospitalities are published and available on the Council's website and a review of these online for 2020/21 did not identify any issues. However, for 2021/22, as part of our work on the financial statements, we identified fourteen Councillors had not completed their declarations of interest on a timely basis. Nine were completed in June/July of 2022 following the issue of a second reminder in May 2022. One was completed in October and two not until February/March of 2023. One published declaration relates to 2017/18 (See Improvement Recommendation 7 – page 25).

Improvement recommendations

Governance

4	**Recommendation**	The Council should consider refining the risk management arrangements to align with its strategic priorities.
	Why/impact	Aligning risk with strategic priorities will assist the Council in focussing on the achievement of its strategic priorities, help to strengthen the Council's collective focus and reduce any risk of service areas developing a 'silo' mentality.
	Summary findings	The Risk Management system is structured across service areas so that risks which are cross cutting in nature, such as climate change, are linked to one service area rather than to the Council's strategic priorities.
	Management comment	Management accepts this recommendation and we have taken steps to implement strategic priorities into our risk management processes.

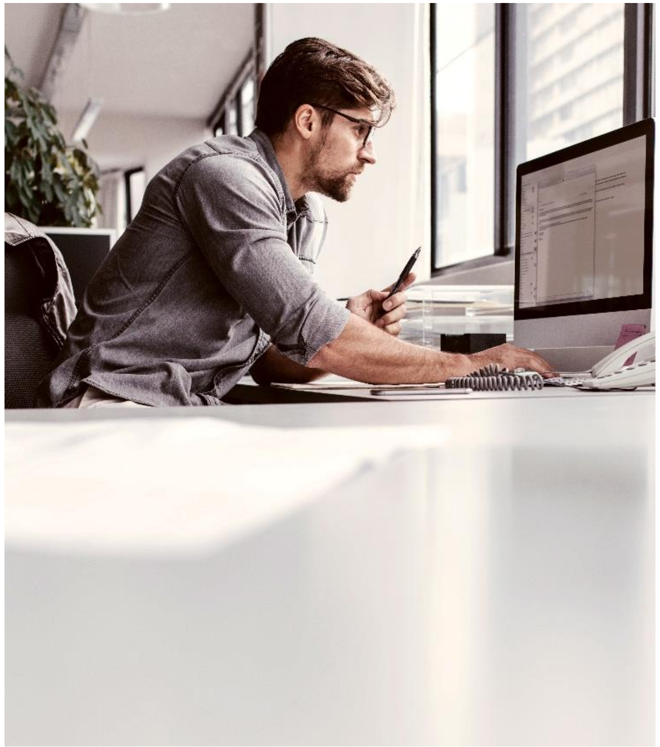


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

5	**Recommendation**	There is an opportunity to enhance risk management by including sources of assurance as part of the Risk Management Annual Report .
	Why/impact	This would improve transparency and support the work of the Audit Committee to ensure that the assurance for key risks is robust and sufficient.
	Summary findings	In the Risk Management Annual Report provided to the Audit Committee, risk owners are allocated and direction of travel for each risk is shown. Risk controls and mitigations are documented but no sources of assurance are shown. However, the IA Annual Report includes an assurance map.
	Management comment	The recommendation is accepted, and officers will incorporate further information in its Annual Report.



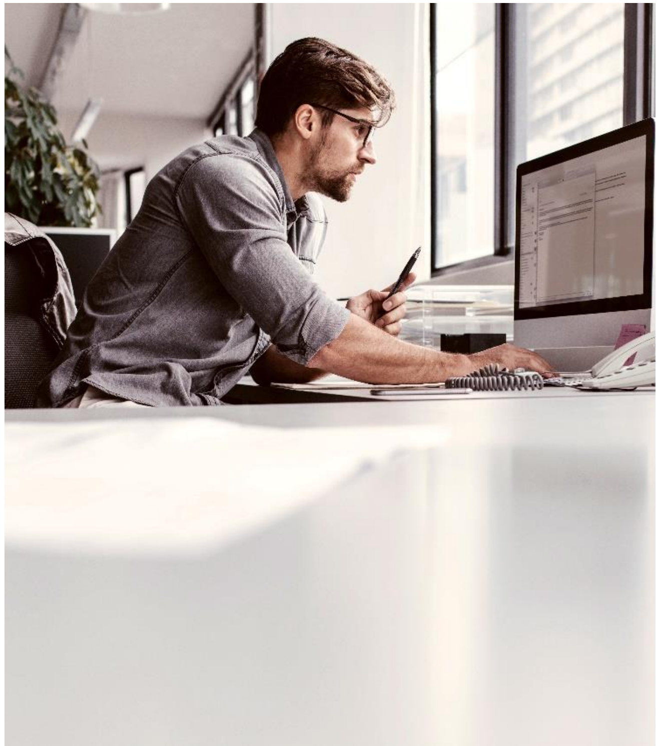
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

6	**Recommendation**	More detailed narrative should be provided on the savings delivery in the 2022/23 Financial Sustainability Programme, including an indication of whether the savings are recurrent. This should also be considered for the budgeted savings.
	Why/impact	There is scope to enhance the 2022/23 Financial Sustainability Programme reporting to provide more context for Member and ensure appropriate visibility of savings on a timely basis.
	Summary findings	The regular Budget Monitoring reports (months 4, 6, 8 and 10) to Cabinet provide sufficient detail to enable Cabinet to raise appropriate questions. However, savings in the 2022/23 Financial Sustainability Programme are included at a very high level and identify broadly the types of savings being made but it do not give any commentary on any areas where the savings are challenging, or any indication of whether the savings are recurrent or one offs.
	Management comment	Given the timing of this report it is not proposed to retrospectively report on 2022/23, however management will consider the opportunity to reflect more granular reporting on the delivery of savings from 2024/25 onwards.

Page 370



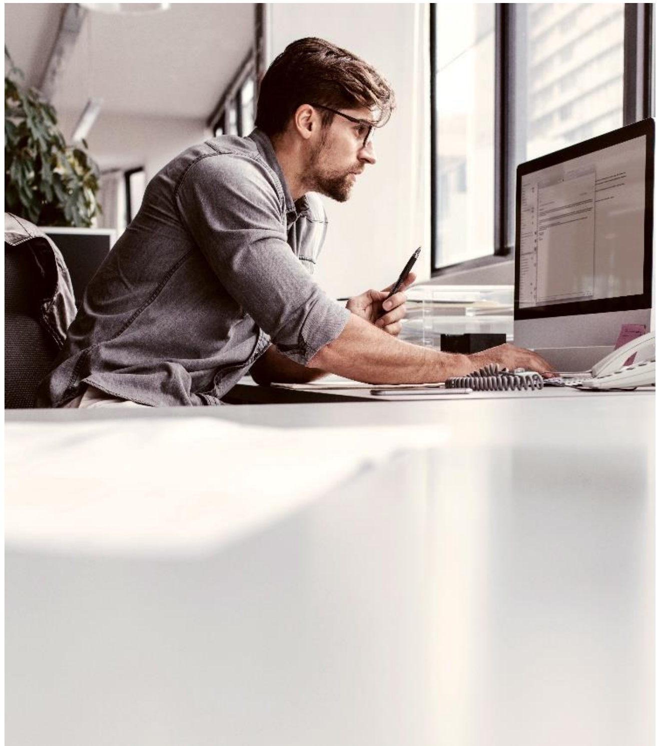
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

7	**Recommendation**	The implementation of the annual renewal of declarations of interest should be strengthened with a robust timetable and more timely reminders. Non - respondents should be followed up promptly.
	Why/impact	Compliance with the Members' Code of Conduct demonstrates that Members operate with integrity and transparency.
	Summary findings	The Financial Statements audit identified issues with the declaration of Members interests with 14 of 60 not providing a timely return for 2021/22. All but one were sent a second reminder. The Members' Code of Conduct states that declarations should be renewed annually. Review of the 14 overdue declarations showed that 9 were updated in June 22 and 1 in July 22 (presumably in response to the second reminder sent in mid May). One declaration is undated (PDF document published with no date provided). Three were updated significantly later in Oct 22, Feb 23 and March 23. One published PDF is dated 2017/18.
	Management comment	The recommendation is accepted, and processes will be updated to strengthen controls in reporting of declarations of interest.

Page 371



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

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Page 372

Covid 19 arrangements

The Council established sound arrangements to track and monitor Covid related activities, decision making and grant expenditure. Appropriate management information was brought together and further refined as time progressed beyond the initial emergency.

The Pandemic Incident Management Team (PIMT) was chaired by the Director of Public Health and met as often as daily at the start of the pandemic. This brought together service area situation reporting and decision making and was used as the mechanism for distributing the additional Covid-19 funding. A structured protocol was introduced and a shared PIMT support and co-ordination notebook was set up in SharePoint, sub divided by service area with financial thresholds defined and an escalation mechanism. The Council pragmatically based the process on the Council's usual capital procurement process ensuring that appropriate information was included to enable decision making. The Council also made clear that it was an emergency protocol which replaced normal procurement and exemption processes.

Children's Services

The Council's children's social care services were rated as inadequate in an Ofsted Inspection Report dated January 2020. This repeated a conclusion of inadequate in relation to the service for care leavers initially dating back to 2015, and although a focused visit in 2018 recognised some improvements, a joint inspection by Ofsted and the CQC in 2018 led to a Written Statement of Action for SEND (dated 2019). A further SEND revisit was completed in May 2022. The overall conclusion was that "The area has not made sufficient progress in addressing any of the significant weaknesses." This conclusion continues the general pattern of a lack of progress and a continuation of the Council's children's social care services rating as inadequate and highlighted serious failures.

There are some pockets of improvement. For example, the Monitoring visit in March 2022 is more positive in tone, noting that changes are starting to take effect and that a recent change in the senior leadership team is having an impact including the introduction of a new practice model supported by external partners. It notes that "elected members and corporate leaders now prioritise children and families and acknowledge the need to make changes more quickly". A secure children's home (Atkinson House) was rated 'Good' in February 2022.

The Council now has a new Director of Children and Young People's Futures and a new Commissioner for Children's Services in Devon.

We have observed that recent Ofsted reports have rightly been used as catalysts for review and investment. However, the inadequate rating shows that the Council is currently failing to meet minimum service standards in a core area and we therefore have to conclude that there is a continuing significant weakness in arrangements in relation to children's social care services in both 2020/21 and 2021/22.

Performance management

At officer level, the Council has a range of performance assessment mechanisms in place. These include budgetary planning and monitoring, savings planning and monitoring, risk management processes and contract performance management, which rests with local service delivery managers. For example, Highways and the Built Environment contracts include formal performance and delivery criteria which are assessed through onsite inspection visits before suppliers are paid.

In Adult Social Care a contract management team has been established with a contract manager in each locality and a monthly quality "huddle" takes place which is used to surface issues which may not be detected through other mechanisms. We conclude that there are comprehensive performance management arrangements in place in service areas.

The performance reporting currently in place is aligned to Member portfolios and Council service areas rather than overall Council performance against the priorities outlined in the Strategic Plan (see Recommendation 8 – page 30). We have noted that connections with the priorities are made in formal Committee papers and internal processes, such as the new post approval mechanism. Across the Council there are a number of performance management mechanisms.

- The monthly Budget Management Group (BMG) in Finance reviews budgets, outturn and savings on a monthly basis. This review is part of a structured meeting schedule which feeds into reporting to Cabinet.
- Additionally, the Scrutiny Committees receive in year briefings from the service areas. Officers also described regular contact with Cabinet Members/portfolio holders and effective and constructive working relationships with them.

The Council has also commenced the 'Smarter Devon' programme (in 2019) which aims to harness the power of existing data within the Council to improve local residents' experiences (for example, by designing appropriate links between different data sets), to improve decision making and to "define measures and collect evidence to demonstrate whether we are succeeding in meeting our purpose". This continues to develop in 2021/22 and has been used to support sensitivity analyses for budgeting and for developing performance dashboards.

Review of the Ombudsman decisions in both years showed no obvious pattern of failures with a mix of decisions across differing service areas either upheld or not taken further.

There are examples of good performance reporting. For example, we noted that the Performance Report to Children's Services Scrutiny Committee in March 2022 included a useful and clearly presented 'Measures of change' KPI table with narrative explanations, comparisons to national data and direction of travel. We also noted that the Children's Scrutiny Committee Standing Overview Group of 21 February 2022 included a performance report on the Ofsted Improvement Plan. The report includes KPIs and narrative to provide context and explanation. However, as last year, there is no overarching strategic performance framework which ties together all aspects of performance management in a structured and coherent way (See Recommendation 8 – page 30).

Overall workforce management mechanisms include the budget process and service area plans such as the agreed staffing establishment in each service area and the Recruitment and Retention Strategy in Children's Services. A Workforce Strategy is under development but during 2020/21 and 2021/22 no strategic workforce plan or people strategy was in place (See Recommendation 9 – page 31).

Assurance over the accuracy and reliability of the financial and performance data reported to Cabinet is provided through the Budget Management Group and Scrutiny Committees, as well as work completed by Internal Audit on the 'material systems' which process most of the Authority's income and expenditure.

Overall we conclude that the Council has appropriate performance management arrangements in place and we have made an improvement recommendation regarding an overarching strategic performance framework.

Benchmarking and learning from others

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can identify areas for improvement and also provide targets to work towards.

Benchmarking was undertaken as part of our VFM work. We used our management tool 'CFO Insights' and compared the unit costs for a range of services. The tool uses information from the 'RO' returns to central government and population data to determine the number of people using the service to calculate a unit cost. The unit cost is assigned a score which ranges from 'very high' (in the top 20% of comparable authorities) to 'very low' (in the bottom 20%). Overall the unit cost scores for Devon County Council's service delivery were distributed across the full range of scores, from very high to very low. We sought explanations regarding very high unit costs in Environmental, safety and routine maintenance in Highways which we accept is likely to be due to the combination of the largest Council road network and the largely rural nature of the county.

In Children's Services the very high unit cost in Safeguarding is due to a combination of factors, most significantly the work being done to address the Ofsted Inadequate rating.

The explanations provided are of a general nature and officers acknowledged that benchmarking arrangements have not been consistently in place in recent years. The CIPFA Resilience Index has been used for reporting to Cabinet and the leadership group, but membership of benchmarking clubs has lapsed. Changes are in progress with the Council having recently subscribed to a benchmarking tool (CFOi) although this is not yet being used in a systematic way. We noted during our discussions with officers that there are many links through professional networks which also offer an element of learning from other local government organisations.

Some benchmarking work has been completed by the Council. A comparison of the High Needs Block was completed in June 2020 due to the level of year on year overspends from 2018/19. The report benchmarked Devon against national, regional and local data to assess how the level of funding received compared with the level of special education needs (SEND) recognised in Devon. It identified a mismatch between funding levels and the demand in Devon and that the level of SEND was higher than anticipated using indicators which drive the funding formula. We have concluded that the Council is aware that this is an area for improvement and therefore we have made an improvement recommendation.

Benchmarking activity is developing in 2022/23 but in 2020/21 and 2021/22 remained suboptimal and was not aligned to strategic objectives. In 2022/23 it has been driven by the Financial Sustainability Programme with Power BI dashboards being developed by the Smarter Devon team (through 'How we compare' reporting) and a Strategic Indicators dashboard is also under development. The Programme Officer in Smarter Devon reported that Public Health had made active use of the developing Power BI analyses to identify potential opportunities to change and improve by learning from other comparative authorities. Additionally, in summer 2022, a budget sustainability exercise did include some comparison in respect of Adult Social Care demand.

We have commented above regarding the current Ofsted Inadequate rating in the Council's Children's Social Care Services but, in spite of the ongoing rating, we also consider that the Council has used the report, in conjunction with the Dedicated Schools Grant deficit position, as a catalyst for change and is demonstrating a clear willingness to learn from the Ofsted conclusions.

In 2020/21 the number of contract extensions was increased as the Council prioritised continuity of service during the pandemic. We consider that this is a pragmatic response given the circumstances and the Council has had reasonable monitoring and control arrangements in place to facilitate a return to normal procurement arrangements. However contract extensions are still running at increased levels (in 2021/22 and into 2022/23) which is in part attributed to more contracts in place than resource available in the Procurement team. In common with other areas, a number of vacancies are being carried in response to budget pressures and prioritisation of resources, most recently in line with the Financial Sustainability Programme. There is a risk that value for money in contracting arrangements is compromised if the resource to effectively manage those contracts is reduced below optimal levels (Improvement recommendation 12 – see page 34).

Our review of the contracts register did not identify any extensive use of consultants or repeated, inappropriate or unexpected use of particular suppliers.

Partnership and stakeholder working

The Council does not formally define a "significant" partner but officers consistently referred to a number of key partners, in particular 'Team Devon' and local health services. Partners are managed by the relevant service area and we observed that local plans and strategies (such as the North Devon Link Service and the Love Care programme) are developed and delivered in close co-operation with partners. For example, the Love Care programme describes a collaborative governance structure, sponsored by the Council Leader and translating into actions to be taken by each partner to try and solve some of the issues around the supply of care workers. There is a further example of working closely with key partners when Adult Services worked with a care home provider and the CQC to resolve an issue with insurance cover (March 2022).

The Council also has a number of related parties as disclosed in the annual accounts in 2020/21 and 2021/22 which are either joint ventures or associated companies and therefore subject to formal governance arrangements, such as the shareholders agreement in place for Exeter Science Park. The work of partnerships is fed back to and overseen by elected Members through annual reports to Scrutiny Committee, briefings to portfolio holders, quarterly reporting to Scrutiny on specific topics and Member involvement in governance arrangements. There are also periodic reports to Cabinet. In line with our comment on performance management above, the work of partnerships is, similarly, not overseen and reported to elected Members in a systematic way and we have included this as part of our improvement recommendation regarding performance management. We believe that the Council generally has appropriate arrangements to manage its partners and stakeholders, with some scope to refine this further to bring more strategic oversight.

However current inflationary pressures and the impact of increasing demand in Adult and Children's services have placed significant pressures on the Council and its partners. The failure to improve Children's Services (working with the NHS Devon CCG) could be considered, in part, as a failure to deliver in the context of partnership working. The June 2022 joint Ofsted and CQC report is addressed to both the Council and the CCG.

We also noted that Stagecoach, which operates buses, in Autumn 2022, gave notice to surrender some services. In addition, Adult Social Care highlights "two significant provider failures" in 2021/22 (with higher unit costs as a result) and that further individual provider risks are being monitored. Pressure from personal care suppliers has increased with a number of contracts handed back due to low staffing levels. This has increased costs due to the use of agency staff and alternative accommodation but providers continue to pressure for increased rates and the impact is expected in 2022/23. There have also been increases in demand for care and the high level of demand is reported as having been "stable for a number of months". The cost impact is estimated at an additional £4 million per year.

Further cost pressures are expected in 2022/23 due to hospital discharge care arrangements. Furthermore, the Budget Monitoring Group Month 11 2022/23 report section for Education, Learning and Inclusion Services – Dedicated Schools Grant (DSG) - highlights the key risks that the "service is unable to contain costs within the allocated budget" and that "management action plan identified for 2021/22 has seen significant slippage due the pandemic and delays in getting the projects underway".

There is also a risk of "Unexpected demand as new high-cost children and young people move into the area". Overall this potentially represents a risk of significant weakness, which in part relates to the risk in Children's Services, but which extends more widely into Adult Care and other services. However, the Council has put arrangements in place so we have concluded that, on balance, there is currently not a risk of significant weakness in relation to partnership and stakeholder working (see Recommendation 11 – page 33).

Procurement

The Council has effective arrangements in place to manage procurement.

The procurement policy (in the Constitution) is supported by an up to date Strategy which is published on the Council's website. Implementation of the strategy is carried out by a large strategic procurement team known as Devon Procurement Services. The team also run the Southern Construction and Consultancy Frameworks available for any public sector body across south of England. The procurement team work within a comprehensive process framework using category management principles. A variety of mechanisms are in use, proportionate to the significance of the contract, to ensure that procurement activity is properly managed. These include toolkits, corporate negotiating groups, 'meet the buyer' events, a delivery model appraisal, risk assessment and structured checklists (such as the Procurement Key Themes Checklist which links back to the Procurement Strategy).

Contract KPIs are developed as part of the process and used by the service areas to monitor performance.

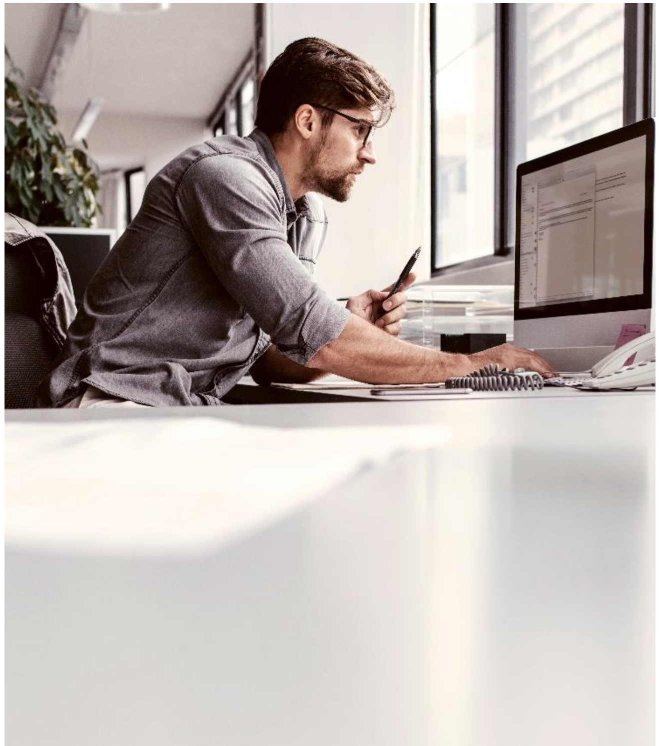
See also our comments on contract extensions above (see page 28).

Improvement recommendations

Improving economy, efficiency and effectiveness

8	**Recommendation**	The performance management framework could be enhanced by • introducing a proportionate framework of high level strategic KPIs to monitor the Council's delivery of strategic objectives • developing a systematic approach to the oversight of the work of significant partners.
	Why/impact	To identify and monitor delivery of the Council's strategic ambitions and to increase transparency of the work done by the Council and its significant partners for local residents.
	Summary findings	There is no overarching strategic performance framework which ties together all aspects of performance management in a structured and coherent way. This includes a systematic approach to the oversight of the work of significant partners. Performance management is focussed on service delivery areas.
	Management comment	Management is confident in the robustness of existing frameworks across the Council but recognises that there are benefits to developing overarching performance management frameworks. There are challenges in developing an efficient and timely process for this, but scheduled replacement programmes of the Council's aged financial system and adult care management system (both of which are underway) will bring forward opportunities to address this.

Page 376



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

Improvement recommendations

Improving economy, efficiency and effectiveness

9	**Recommendation**	The Council should ensure that a Workforce Strategy is adopted and implemented and that it is properly integrated with financial plans given the current recruitment challenges and the impact of the National Living Wage on budgets.
	Why/impact	This would support staff resource planning in the medium – long term to ensure that factors such as the age profile of the workforce and the level of professionally qualified staff are appropriately anticipated and planned for at a strategic level and would reduce the risks of unplanned staff vacancies being used as a short term budget management tool. This is of particular importance given the current recruitment issues being experienced.
	Summary findings	A Workforce Strategy is under development but during 2020/21 and 2021/22 no strategic workforce plan or people strategy was in place. The 2023/24 Medium Term Financial Strategy states that part of the focus for the next four years is to respond to future workforce challenges. Specific risks are highlighted for "social workers and in the independent provider markets". "Workforce and culture" is planned to be included as part of the long term Financial Sustainability Programme but is not yet integrated. (see page 28)
	Management comment	The COVID-19 pandemic has had a detrimental impact on planned renewal of strategies, but workforce – People First – is recognised as a priority and is currently being addressed by the new executive Strategic Leadership group of the council.

Page 377

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

Improvement recommendations

Improving economy, efficiency and effectiveness

10	**Recommendation**	The Council should ensure that it uses and acts on the benchmarking data and reports available to it and ensure that this work is progressed in a structured way.
	Why/impact	There may be opportunities to further improve performance and the effectiveness of service delivery through the use of more meaningful benchmarking.
	Summary findings	The Council is aware that arrangements in place for benchmarking and learning from other organisations need to be strengthened and is taking steps to make changes. Benchmarking activity is developing in 22/23 but 21/22 did not offer any real change from 20/21 and remained suboptimal and was not aligned to strategic objectives.
	Management comment	Management recognises the value that external benchmarking and sharing of practice can bring. The Council has recently invested in CFO Insights, a local authority benchmarking tool, and promoted within the organisation including at leadership level. Management will continue to develop external awareness and comparison across the sector to inform our strategic decision making and augment our Key Lines of Enquiry in our financial planning exercises.

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

Improvement recommendations

Improving economy, efficiency and effectiveness

11	**Recommendation**	The Council must continue to robustly monitor its delivery partners and other stakeholders for signs of financial stress and/or failure to deliver.
	Why/impact	To ensure that residents receive services which are of acceptable quality and that these services are able to continue.
	Summary findings	In late 2022/23 the Budget Monitoring Report (Month 11) is reporting failures in partners in Adult Care providers, increased costs, pressure from existing suppliers to raise prices, suppliers wanting to hand back contracts (e.g. Stagecoach for bus services) and increasing levels of demand.
	Management comment	The Council continues to operate a robust process of supplier monitoring, for example through the procurement service working with commissioning leads / contract managers. Some underlying market challenges are resulting in provider failures or lack of continuity, and anticipating the pandemic's impact on supplier financial resilience, an internal audit was commissioned to review the Council's approach and provide assurance. A risk-based prioritisation is incorporated within the monitoring approach which identifies providers considered strategic or on which DCC is more dependent. Detailed financial reviews also take place ahead of contract novation. Measures which continue to provide assurance include: • Risk assessment via supplier Financial Resilience Monitoring to understand each supplier's financial position and business continuity impact. • Monitoring key supplier accounts via credit scoring reports, both annually and use of in-year exception reporting to alert procurement officers of changes in risk. • Commissioning Service & Procurement officers review risks and take required action. • Using industry standard model placing suppliers in categories according to risk and value of what they provide. All suppliers with a high value and risk are actively monitored, and suppliers in other categories are proportionately monitored. • Construction firms engaged by the Authority are monitored through another industry specific scheme provided by a specialist provider.

Page 379

Improvement recommendations

Improving economy, efficiency and effectiveness

12	**Recommendation**	The Council needs to ensure that an appropriate balance is kept between achieving value for money in procurement and prioritising procurement resourcing to achieve that.
	Why/impact	There is a risk that with reduced staffing levels in procurement, value for money in procurement and commissioning may be compromised.
	Summary findings	In common with other areas, a number of vacancies are being carried in the Procurement team response to budget pressures and prioritisation of resources, most recently in line with the Financial Sustainability Programme.
	Management comment	The Council is satisfied with arrangements to prioritise resources to support key activities. Audit opinion that the Council has effective arrangements to manage procurement is welcomed, the comments are fair. The Council must ultimately operate within finite resources and maintain procurement arrangements that are both affordable and deliver value for money. This balance is managed on an ongoing basis through service planning and budgeting. Service capacity has reduced through deletion of vacancies and scaling within affordable budget; however, mitigation includes taking some income generation opportunities to help sustain core capacity and replacing staff leavers via a 'develop and train' strategy. Management is satisfied that sufficient resources are in place to maintain compliant procurement which helps to provide ongoing assurance.

Page 380

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

Opinion on the financial statements for 2020-21 and 2021-22

Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 25 October 2023, for 2020-21, and 2 November 2023 for 2021-22.

Audit Findings Report

More detailed findings can be found in our Audit Findings Reports for both financial years, which were published and reported to the Council's Audit Committee on 24 February 2022 and 28 February 2023, respectively. Finalisation of both audits was affected by the impact of the changes in accounting for Infrastructure assets and the triennial pensions valuation outcomes.

A small number of issues were highlighted in these reports. In both years, we highlighted a significant control deficiency in relation to the processes in place for journals in excess of £200k. In 2020/21, incorrect data had been provided to the actuary in relation to the Council's unfunded member data. A revised actuarial valuation led to an increase in the unfunded pension liability at 31 March 2022 of £41m. In 2021/22, there was one significant adjustment made to the Council's pensions liability. This was due to the triennial review of the pension fund being published, prior to our audit report being issued. This reduced the net pensions liability by £271m to £907.6m. This also impacted on the opening balances of the 2022/23 financial statements.

No further adjustments were noted that resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

Whole of Government Accounts

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

For both financial years the Council was below the NAO's threshold for detailed work to be undertaken. We have submitted the required assurance statements to the NAO confirming this.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

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

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

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

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

Page 383

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

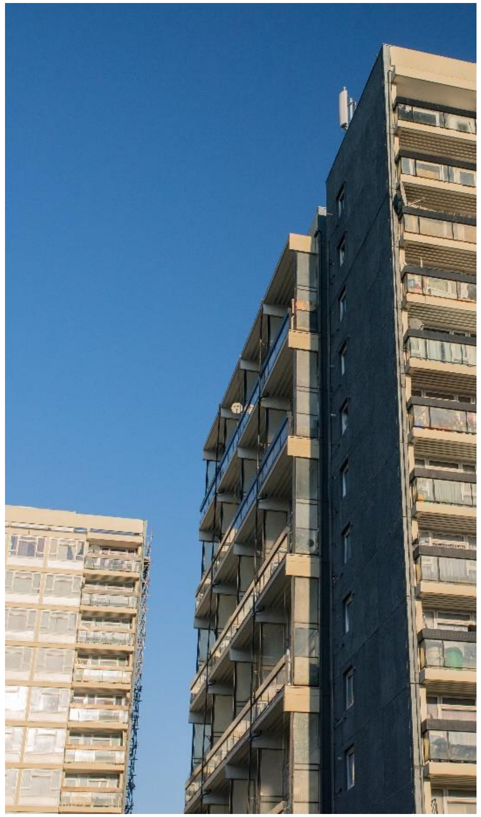
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



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

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Risk of significant weakness in Financial sustainability was identified during planning for 2020/21 in SEND. For 2021/22 the growth in the annual shortfall and cumulative deficit were identified as a major risk for the Council. In addition, in common with the national situation, overspending on the budget was identified as a risk.	Review of DSG Recovery Planning and budget planning and monitoring, including savings planning and delivery.	Risk of significant weakness identified as mitigated deficit is forecast to reach in excess of the planned £138m by 2024/25. Overspend contained to reasonable level, below forecast and supported by reserves.	Appropriate arrangements not in place for the management of the demand for Education Health and Care Plans (EHCPs) and independent placements in the High Needs Block. One key recommendation raised and three improvement recommendations raised.
Governance was not identified as a potential significant weakness.	Update on the Doing What Matters approach.	The approach stalled during the pandemic. Some pilots have been judged effective. Links need to be made to financial planning so we have included an improvement recommendation in Financial Sustainability.	Appropriate arrangements in place, no further action taken. Four improvement recommendations raised.
Improving economy, efficiency and effectiveness was identified as a potential significant weakness, in respect of Children's Social Care Services and the Ofsted rating.	Update on Ofsted and plans to address EHCP demand and independent placement demand.	Most recent Ofsted revisit found no significant progress made so this continues as a risk of significant weakness.	Appropriate arrangements not in place for Children's Social Care. One key recommendation raised and five improvement recommendations raised.

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	-
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	6 - 7
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	15 – 17, 22 - 25, 30 - 34

Page 385

Appendix D - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We have not issued any statutory recommendations.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We have not issued a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We have not made an application to the Courts.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We have not issued any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We have not applied for a judicial review.

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DFP/24/39
Audit
28 February 2024

Auditor's Annual Report for 2022/23

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Audit Committee notes the Auditor's Annual Report for 2022/23 financial year.

2) Background / Introduction

The Council's external auditor, Grant Thornton LLP, is required to provide an Auditor's Annual Report each year which confirms its Opinion on the Authority's financial statements and any significant matters in relation to the Authority's arrangements for securing economy, efficiency, and effectiveness in its use of resources.

The Auditor reviews our arrangements under three main criteria:

- Financial sustainability
- Governance
- Improving economy, efficiency, and effectiveness

The report summarises the work undertaken by the external auditor and his findings and recommendations in relation to value for money.

Angie Sinclair
Director of Finance and Public Value
Electoral Divisions: All
Cabinet Member for Finance: Councillor Phil Twiss

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Interim Auditor's Annual Report on Devon County Council

2022/23

February 2024

Contents

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

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

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

Executive summary

Value for money arrangements and key recommendations

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	2022/23 Audit Plan Risk assessment	2022/23 Auditor Judgement	2021/22 Auditor Judgement
Financial sustainability	Risk of significant weakness identified because of the high cumulative DSG deficit, reliance on reserves to balance recent budget and the required levels of savings required into the medium term to deliver the Medium-Term Financial Strategy.	Significant weakness in arrangements identified and one key recommendation made relating to Financial Sustainability and Dedicated Schools Grant Deficit. Two improvement recommendation have also been made.	Significant weakness in arrangements identified around financial sustainability. One key recommendation made and three improvement recommendations made.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified. Four improvement recommendations made.	No significant weaknesses in arrangements identified, but four improvement recommendations made.
Improving economy, efficiency and effectiveness	Risk of significant weakness identified because of the inadequate rating issued by Ofsted in respect of children services in 2020 and in 2022.	Significant weaknesses in arrangements identified as continuing risk in the delivery of children's services. One key recommendation and one improvement recommendations made.	Continuing significant weaknesses in arrangements in the delivery of children's services. Five improvement recommendations made

No significant weaknesses in arrangements identified or improvement recommendation made.

No significant weaknesses in arrangements identified, but improvement recommendations made.

Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

Devon County Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures. The Council has an embedded organisational approach to financial planning and setting the annual budget. However, we have identified significant weaknesses in the Council's arrangements because there are a number of signs of financial stress that indicate a threat to its financial sustainability. The significant use of earmarked reserves and forecast future reserves balance is of concern. Increased use of reserves and deteriorating balances may undermine the Council's ability to be financially sustainable in meeting its commitments in the short and medium term. We have raised one key recommendation, on page 7, to reflect the challenges faced.

Indicators of financial stress include (but not limited to) the following :

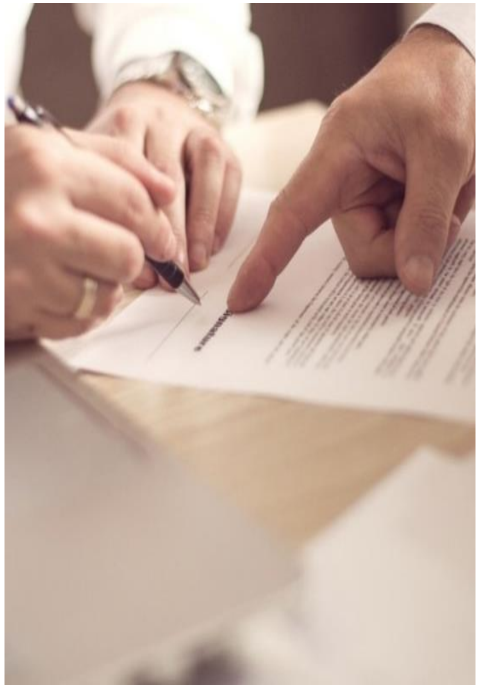
- A forecast adverse outturn position in 2023/24 of some £4 million
- Increasing levels of demand leading to future costs pressures resulting in forecast savings of £134.7 million to be delivered, to balance the Council's Medium Term Financial Strategy (MTFS) by 31st March 2027.
- Reducing levels of reserves. The 2023/24 to 2026/27 MTFS forecasts that at March 2027 the general and earmarked reserves balances could reduce to £82 million.
- Uncertainty around the funding of the Dedicated Schools Grant (DSG) deficit. The DSG forecast deficit balance is £162 million at the end of March 2024. Whilst deficits are being reported across many upper tier councils the level of deficit at Devon is significant when compared with its peers. If the statutory override is not extended beyond its current date of 31 March 2026, nor financial support forthcoming from government to reduce the financial deficit, it will wipe out the Council's reserves of £107 million at 31 March 2024.

The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing all members needs to ensure that there is a robust response to the financial matters highlighted above and that officers are supported in making the changes needed. Progress in delivering savings and transformation plans should be tracked by Cabinet, the Audit Committee and Scrutiny Committees.

On this basis we have concluded that for 2022/23 the Council does not have arrangements in place for ensuring financial sustainability into the medium term. For 2022/23 we have reported one significant weaknesses in the Council's financial sustainability arrangements. We have also raised two improvement recommendations which can be found on pages 17 and 18.

Financial Statements opinion

We have substantially completed our audit of your 2022/23 financial statements and anticipate issuing an unqualified audit opinion shortly. Our findings are set out in further detail on page 39.



Executive summary

Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements. It has adequate arrangements in place for ensuring that it made informed decisions and managed its risks. We have made four improvement recommendations, on pages 24 to 27, to further develop the Council's strategic risk management approach, report on the implementation of audit recommendations through a tracker and on the Audit Committee carrying out an annual self-assessment of its effectiveness.

Improving economy, efficiency and effectiveness

The continuing inadequate rating and the intervention of a commissioner for Children's Services highlight the significant weakness in the Council's arrangements for Childrens and Young People.

We have made a key recommendation, on page 8, to improve governance and oversight arrangements by Cabinet. Specifically, to receive regular reports on the improvement areas identified by Ofsted with expected outcomes and Key Performance Indicators to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating over the next few years .

We identified one area for improvement, on page 34, on the production of a Data Quality Strategy to support the new corporate performance management framework.

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

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they:
(i) present a true and fair view of the Authority's financial position, and
(ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23

We have not yet completed our audit of your financial statements and have not issued our audit opinion as at the date of this interim report. This report will be updated, if necessary, to reflect any significant findings once our audit has been concluded.

Statutory recommendations

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

Our work to date has not identified any issues requiring a statutory recommendation.

Public Interest Report

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

Our work to date has not identified any issues requiring a public interest report.

Application to the Court

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

Our work to date has not identified any issues requiring an application to the court.

Advisory notice

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

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

Our work to date has not identified any issues requiring an advisory notice.

Judicial review

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

Our work to date has not identified any issues requiring a judicial review.

Key recommendation- Financial Sustainability

Key Recommendation 1	The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing all members need to ensure that there is a robust response to financial matters and that officers are supported in making the changes needed. Progress in delivering savings, transformation plans and the DSG Safety Value Plan should be tracked by Cabinet and Scrutiny Committees each month.
Identified significant weakness in arrangements	Signs of financial stress that indicate a threat to the Council's financial sustainability in the medium term.
Summary findings	Indicators of financial stress include the following (but not limited to): • A forecast adverse outturn position in 2023/24 of some £4 million • Increasing levels of demand leading to future costs pressures resulting in forecast savings of £134.7 million of savings to be delivered, to balance the Council's Medium Term Financial Strategy (MTFS) by 31st March 2027. • Reducing levels of reserves. The 2023/24 to 2026/27 MTFS forecasts that at March 2027 the general and earmarked reserves balances could reduce to £82 million. • Uncertainty around the funding of the Dedicated Schools Grant (DSG) deficit. The DSG forecast deficit balance is £162 million at the end of March 2024. If the statutory override is not extended beyond 31 March 2026 nor financial support forthcoming from government to reduce the financial deficit, it will wipe out the Council's reserves of £107 million at 31 March 2024.
Criteria impacted by the significant weakness	Financial Sustainability
Management comments	The Council continues to place high importance on maintaining financial sustainability and continues to respond robustly to financial challenges. Delivery of savings will continue to be highlighted in bi-monthly reports to Cabinet. Management will review reporting requirements for 2024/25 to deliver improvements in reporting on the delivery of savings and will consider more frequent reporting either by routine or by exception considering risk and volatility. Clear governance and reporting requirements regarding SEND improvements and deficit management has been established in the autumn 2023 and has been incorporated in the Council's submission to Government through Safety Valve discussions. Should a Safety Valve agreement be reached it is envisaged this will require significant regular reporting.

Page 397

Progressing the actions management has identified to address the key recommendations made will support the Council in addressing the weaknesses identified from our work.

The timescales provided by management should be appropriate and we encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key recommendation- Improving economy efficiency and effectiveness

Key Recommendation 2	The Council needs to enhance its governance and oversight arrangements over Children's Services with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating.
Identified significant weakness in arrangements	Children's Services have been rated "Inadequate" by Ofsted. The Council continues to invest in the service and indications are that some progress is being made. As expected, it will be several years before all improvements are complete and the "Inadequate" rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area.
Summary findings	The Council has made significant financial investment in Children's Services during 2022/23 and 2023/24. It needs to enhanced its governance and oversight arrangements with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating. The Council is making progress as demonstrated by some improvements in performance. However, there is clearly more work to do and, as expected, the process will take a number of years to fully complete.
Criteria impacted by the significant weakness	Improving economy, efficiency and effectiveness
Management comments	Financial sustainability and improved outcomes for children and young people is a top priority for the Council. In Summer 2023, DCC revisited its DSG management and sustainability plans and has since developed an improved governance framework to oversee the delivery of the SEND Transformation Programme. This includes the governance structure, defined programme and project management and action plans with clear responsibilities, and with risk management embedded.

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

Key recommendation- Improving economy efficiency and effectiveness

Management comments	This is led by a SEND Strategic Partnership Board that holds the partnership accountable for the delivery of the deficit management plan and the delivery of the Ofsted/CQC Accelerated Progress Plan (APP). The Board meets monthly, and membership includes an independent Chair, DCC and NHS ICB Chief Executives, Senior DCC & NHS Leaders (inc. s151 Officer), Elected Members, Parent Carer Forum Devon, the Chair of Devon Schools Leadership Services (DSLS) and the Designated Chair of Devon Special School Heads. The SEND Transformation Programme Board is responsible for overseeing the detailed delivery of the programme against agreed milestones and delivery plans and holding leads to account for delivery. Membership includes Director of Children's Services, Senior DCC & NHS Leaders, Project Leads, Parent Carer Forum Devon and appropriate representatives across the partnership. The Council will maintain these governance arrangements, with potential adjustments to the reporting and meeting schedule to align with the proposed DfE Safety Valve monitoring arrangements. The Council is developing a Safety Valve Dashboard to support monitoring arrangements. Reporting is proposed to include reports to DCC Strategic Leadership Team (SLT) bi-monthly, Cabinet approximately 3 times per year, with scrutiny provided through our Overview & Scrutiny Committee at least twice a year. An Improvement Partnership Board, chaired by DfE Commissioner, receives regular reports on children's social care performance directly in response to Ofsted inspection outcome. Children's Scrutiny Committee receives performance reports and service specific reports focussed on practice improvements. Ownership of actions, progress, and outcomes is included in these reports. The Service Improvement Plan is agreed and overseen by the Improvement Partnership Board and within the service by Children's Leadership Team. This includes KPIs and practice specific actions. This Plan overarches service-specific plans.

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

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

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

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement. Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Financial Sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 10 to 34. Further detail on how we approached our work is included in Appendix B.

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

Financial sustainability

We considered how the Council:

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

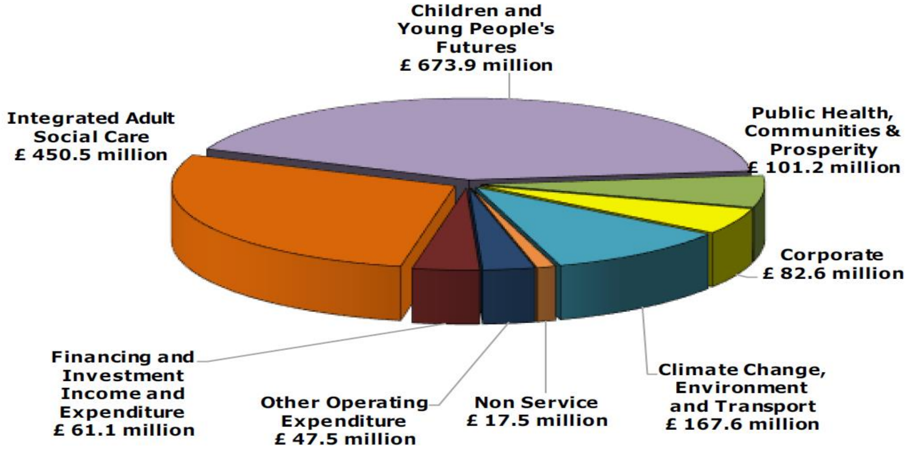
The Council identifies all the significant financial pressures it is facing and builds these into its plans

The Council has an embedded organisational approach to financial planning and setting the annual budget. However, we have identified a significant weakness in the Council's arrangements because there are a number of signs of financial stress that indicate a threat to its financial sustainability in the short and medium term and we have raised a key recommendation to reflect the challenge faced.

Financial outturn 2022/23

At the end of January 2023, there were some significant adverse variances to the budget. Integrated Adult Social Care was forecasting an overspend of £4.1 million, Children and Young People's Futures was forecasting an overspend of £19.5 million as well as an overspend of £41.1 million on Special Education Needs and Disabilities (SEND). The remaining Service areas were forecasting positive variances with underspends of £8.9 million, comprising an underlying forecast position of £1.9 million underspend and additional savings identified in the Financial Sustainability Programme (FSP) totalling £7 million. Non-Service items, including capital financing charges and business rates pooling gain were forecasting an underspend of £11.1 million. The underlying position was a forecast pressure of £1.1 million and £12.2 million of savings identified by the FSP (although most were of a non-recurrent nature).

2022/23 DCC Gross expenditure of £1,602 million



Source: 2022/23 draft Statement of Accounts

Financial sustainability (continued)

Financial outturn 2022/23 (continued)

The 2022/23 outturn, at month 12, was an underspend of £156,000. This was 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. Overspends in demand led services were partially mitigated by underspends in other service areas and central budgets and also contributions from Earmarked Reserves, in particular the contribution from the Budget Management Reserve of £18.369 million (£6.018 in 2021/22). All variances are clearly set out within the budget outturn report and from review we can evidence where the Council has instigated further action or investigation in respect of significant variances. The final outturn position was an improvement from the £3.6 million overspend forecast outturn reported to Cabinet on 8th March 2023. The organisational wide response to the mid-year financial challenges faced by the Council, 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.

2023/24 forecast

For 2023/24, to enable the Council to set a balanced budget, savings, alternative funding, and additional income of £47.5 million have been identified. Overall, there is additional funding of £66.2 million or 10.5% for service budgets in 2023/24. At the end of November 2023, it was estimated that budgets will overspend by £4.56 million (after September Council reducing the 2023/24 budget by £10 million, with an additional £10 million of savings to enable an in-year £10 million contribution to the new SEND Deficit Mitigation Reserve), comprising the £2.9m of in-year additional savings still to be identified plus net £1.6m in other variances. This is an improvement of £9.1 million compared to the Month 6 forecast mainly due to one-off income from the Council's broadband provider of £7.5 million. It is also important to note that this reported overspend excludes the Dedicated Schools Grant (DSG) deficit. Cabinet receive bi-monthly finance reports at months 2, 4 onwards.

Improvement Recommendation One. We suggest that given the Council's significant financial challenges and as monthly budget monitoring is carried out by the Finance Team, then Cabinet should receive monthly updates on the Council's financial position in-year so that it may be informed of monthly service and corporate variances to budget.

The Council plans to bridge its funding gaps and identify achievable savings

The Council's cross-organisational wide Financial Sustainability Programme (FSP), since September 2022, reviews additional in-year options for service transformation, modernisation, remodelling of delivery, and ceasing or postponement of activity where possible. The month 10 position for 2022/23 reflected £26.5 million of savings and additional income identified through the FSP which was necessary to reduce the in-year forecast overspend. Identifying cost pressures, savings planning and driving further efficiencies are also at the core of the Council's Medium Term Financial Strategy (MTFS) which picks up the savings plans and pressures in the annual budget and looks forward three financial years to 2026/27. Uncertainty around future funding and demand for services means that the MTFS is based on assumptions. The balancing of the 2023/24 budget is one of the most challenging the Council has faced.

Children and Young People - Social Care

Single tier councils and county councils spent £12.2 billion in 2021/22 and have increased their budget to £12.7 billion in 2023/24 as demand for children's social care services have increased.

30 out of 36 county councils overspent their Children's Social Care budget in 2021/22.

Councils have a statutory duty to safeguard and promote the welfare of children at risk. A range of services can be provided including support to families as well as keeping children safe from harm and providing services for those children who are 'looked after' by the council.

In recent years there has been an increase in demand with an increase in the number of child protection places and looked after children, as well as an increase in complexity of the needs of the children.

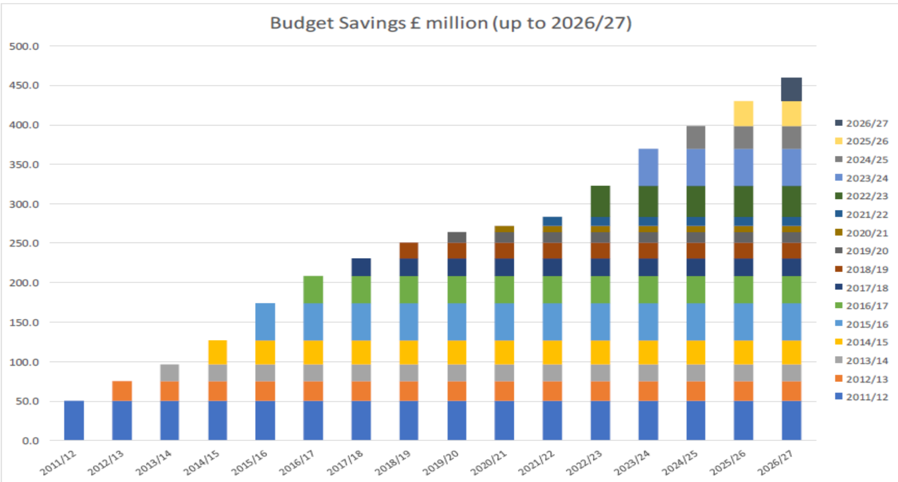
The increase in demand and complexity has resulted in an increase in the cost of individual residential placements which are often not local and outside the Council's geographical locality as well as private and agency foster carers.

Many councils have failed to model and anticipate the increase in demand and as a result lack sufficient local quality provision and are now actively trying to meet this challenge.

Financial sustainability (continued)

The Council plans to bridge its funding gaps and identify achievable savings

The savings required for 2023/24 in the MTFS of over £47.5m were the highest since 2015/16, and this was the assessment prior to the current inflationary pressures. The savings required for 2024/25 are projected to be £27.1 million, of which £6.4 million has already been identified in service budgets. In 2025/26 and 2026/27 the required savings are estimated to be £31.7 million and £28.5 million respectively.



Page 404

The MTFS recognises that demand for services continues to increase, in particular across Adults and Children's Social Care and assumptions around growth figures are included. The proposed budget for Integrated Adult Social Care includes an increase of £27.3 million, an 8.8% increase compared to the previous year, to fund current and forecast demand and inflationary pressures (including National Living Wage) on the budget in 2022/23. Budget savings totalling £30.5 million are also required, the implementation of which is likely to present a considerable operational challenge. At the end of November 2023, the outturn forecast for 2023/24 was a net overspend for 2023/24 of £4.5 million with £10 million set aside for the Safety Valve arrangements. Actions are underway, through the Council's FSP, to develop alternative savings strategies to bring spending in line with budget.

Improvement recommendation two: We suggest that savings plans are RAG (Red, Amber, Green) rated, as part of the reporting on the progress of achievement of savings so that officers and members are aware in reports to Cabinet, of the high risk schemes that are less likely to be delivered; and what alternative savings plans are in place to address any financial in-year deficits.

Adult Social Care

Single and upper tier Councils are responsible for providing adult social care (ASC) services to help adults of all ages who may need additional support to stay well, safe and where possible to live independently.

ASC represents a significant part of Council spending with £19 billion being spent in 2021/22 with budgeted expenditure rising to £19.7 billion in 2022/23, reflecting growing demand.

There have been several reforms to ASC funding for Councils over recent years, including the introduction of the Better Care Fund and giving Councils the power to raise additional revenue locally though Council Tax (the social care precept). Despite these changes Councils are delivering ASC services within a challenging environment that is shaped by more people, particularly working-age adults, requesting support, an ageing population and increasing complexity of need. These factors are being managed by Councils alongside financial challenges such as the impact of inflation, acute workforce pressures, the sustainability of commissioned ASC providers and uncertainty around longer term ASC funding and reform.

Despite these pressures Councils will need to establish sufficient capacity to track and then transform service delivery to meet the challenges of evolving need and demand.

Financial sustainability (continued)

The Council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Budget Book for 22/23 identified changes in each service area which include inflation, demographic changes, demand pressures, net cost of additional investment in contract and market management (in Adult Commissioning and Health). Pay inflation (in particular NLW pressures), demand and demographic pressures, etc are included in the Revenue Budget and each service area specifies the values of Technical and Service Changes as well as Savings Strategies. These also form part of the review in budget challenge meetings and at Scrutiny Committee. The 2023/24 Budget Book is presented in the same format.

The risk assessments in the budget book include consideration of expenditure drivers. For example, the 2023/24 budget book Adult Care and Health includes Inflation and National Living Wage (increase of £29.5m) and democratic and demand pressures (increase of £23.8m). Total net increase of £27.3m compared to 2022/23. These are also highlighted as a risk with mitigations in the risk analysis.

The Council states its priorities in its published Strategic Plan 2021 – 2025, and the delivery of services in line with these objectives informs the MTFS and Cabinet decision making. The budget conversation is started during the summer and progressed into autumn and developed alongside the update to the strategic plan. The budget books also include a summary of relevant committee reports which support the budget development process.

The Council ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

Capital

The approved capital programme for the Council is £258.9 million. This figure incorporates amounts brought forward from 2022/23 of £54.7 million and approved in-year changes totalling a net of £31.2 million. 3.2. The year-end forecast is £197.2 million of which £171.9 million is externally funded. Slippage is forecast at £61.7 million. Slippage is highest within the Climate Change, Environment and Transport Directorate, which reflects the complexity of the major projects within this service area. We evidenced through review that budget monitoring reports include an overview of the capital programme and progress against spend. Commentary on the assumptions and impact of the programme on borrowing costs is also included as part of the budget and MTFP.

Treasury Management

The Council has appropriate arrangements in place for its Treasury Management activity. The Treasury Management Strategy Statement and the Annual Investment Strategy are approved in advance of each financial year as part of the budget and MTFS approval process.

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, ultimately representing balances which need to be invested until the cash is required for use during business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

The Council employs Treasury Management advisors who provide information and advice on interest rate movements which is used to inform borrowing and investment decisions. Total external borrowing and other capital financing liabilities of the Council at 31 March 2023 was £510.8 million and the total interest paid servicing external debt for the year was £9.79 million.

DSG Safety Valve Programme

The Council is one of many local authorities facing significant financial challenges in meeting the demand for Special Education Needs and Disabilities (SEND) within the High Needs Block of the Dedicated Schools Grant (DSG). The Department for Education (DfE) launched the Safety Valve Intervention programme in 2021, which targets support to councils like Devon with the highest DSG deficits. To access support, the Council has developed a plan to reform its high needs system to place it on a sustainable footing. Without this plan, the

Financial sustainability (continued)

DSG Safety Valve Programme (Continued)

Council predicts a growth from circa 9,000 Education Health and Care Plans (EHCPs) in 2024 to over 10,600 in 2030, with a projected 35% increase in the numbers of students who receive their education from the independent sector.

The Government statutory override separates councils' DSG deficits from their wider financial position. The Council is holding significant financial risk should this cease. The forecast accumulated deficit is predicted to be £162.585 million at the end of 2023/24, as shown below.

	2019/20	2020/21	2021/22	2022/23	2023/24 (Forecast)
	£'000	£'000	£'000	£'000	£'000
SEND funding	65,663	75,361	86,966	96,695	106,923
SEND Spend	85,385	104,587	124,497	135,603	144,071
In year overspend	19,722	29,226	37,531	38,908	37,148
Accumulated Deficit	19,772	48,998	86,529	125,437	162,585

For DCC, the cumulative deficit of £162 million exceeds its projected combined working balance and reserves of £93m. The plan to implement a revised service delivery model and earlier intervention to reduce the demand for EHCPs failed to deliver during 22/23. The current local area's SEND Transformation Programme includes "DSG Safety Valve work strands" which plan:

- An annual slowing down and flattening of the net increase in EHCPS, to bring us in line with statistical neighbours and England averages.
- A sustained reduction in the use of costly independent specialist provision, with a total reduction in the number of learners accessing this provision of 30% from 2024 to 2030, some 361 places.
- A proportional year on year increase in the number of learners accessing their education in mainstream schools/resource base provision.

The Council submitted its DSG Safety Valve Management Plan on the 15 December 2023. The Council are discussing its plan with both the DfE and the Treasury. An outcome from these government departments is expected before the end of the 2023/24 financial year.

Dedicated Schools Grant Deficits (DSG)

On 12th December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years. Recent estimates put the total national deficit for local authorities in tens of billions by March 2023.

Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalise as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Financial sustainability (continued)

The DfE have indicated that any agreement reached will require a local contribution from the Council to fund part of its £162 million accumulated deficit. In response, The Council created the Safety Valve Support Reserve, in September 2023, with a contribution of £10 million representing the first element of the local contribution. The remainder of the contribution will be built into the Council's Medium Term Financial Strategy and take account of any proceeds of capital receipts from the sale of assets. If the DfE is assured that the plans are deliverable within the timescales proposed, will result in intended outcomes and have the appropriate level of project management, governance and resource support then financial support towards the accumulated deficit is expected to be agreed. It may need central government to agree a capitalisation directive for a loan repayable at a 1% premium above the PWLB interest rate as the DSG deficit exceeds the Council's general fund unearmarked and earmarked reserves balances.

The Council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Reserves

The budget and MTFS 23/24 - 27/28 (prepared in 22/23) acknowledged the need to contain cost pressures to deliver planned savings and that this is a difficult task which is balanced in the short and medium term through the Council's reserves. For the 2022/23 financial year, the Council's reserves and carry forwards reduced by £61.3 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 offset by an outturn contribution of £1.5 million to the Budget Management Reserve.

Projected reserves and balances to March 2027 show that Earmarked Reserves are expected to fall from £109.7 million at March 2023 to £81.8 million by March 2027.

The following table shows the projected Reserves and Balances up to 31 March 2027.

	31 March 2023 £000	31 March 2024 £000	31 March 2025 £000	31 March 2026 £000	31 March 2027 £000
General Fund					
Working Balance	15,825	15,825	15,825	15,825	15,825
Earmarked Reserves	93,880	77,382	70,580	66,791	65,932
	109,705	**93,207**	**86,405**	**82,616**	**81,757**

The use of reserves is acknowledged as a one off approach, in the Council's Medium Term Financial Strategy, and not suitable as a long-term solution. Invest to save expenditure is planned to reduce expenditure pressures in future.

Overall conclusion for Financial Sustainability

We have identified a significant weakness in the Council's arrangements. We have concluded that the DSG deficit balance is one indicator of financial stress that threatens the Council's financial sustainability. Key recommendation 1.

Improvement recommendation

Financial sustainability

Improvement recommendation 1	**Given the Council's significant financial challenges, we suggest that Cabinet should receive monthly updates on the Council's financial position in-year so that it may be informed of the monthly service and corporate variances to budget and remedial actions being taken by management.**
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Summary findings	Cabinet receive bi-monthly reports on the Council's financial position. There were significant changes between the Month 6 report for September 2023 and the Month 8 report for November 2023.
Management Comments	Management is satisfied that its current arrangements for public reporting to committee on financial performance on a bi-monthly basis is sufficient. SLT and cabinet members meet frequently and receive updates monthly, or indeed immediately if quicker action is required, enabling ongoing visibility and control to be applied by the Council's leadership. Management does not consider this leadership is impaired by only reporting publicly to committee every two months. Current monitoring in the interim months, when no formal committee report is provided, only focusses on high-risk, high-value budgets not the entire budget that is incorporated in bi-monthly reports.

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

Improvement recommendation

Financial sustainability

Improvement recommendation 2	**We suggest that savings plans are RAG (Red, Amber, Green) rated, as part of the reporting on the progress of achievement of savings so that officers and members are aware in monthly financial reports to Cabinet, of the high risk schemes that are less likely to be delivered; and what alternative savings plans are in place to address any financial in-year deficits.**
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Summary findings	The probability that savings plans will be delivered has yet to be reported at a higher level. There were savings gaps reported to members at Month 6 and at Month 8 but plans to cover these gaps were not identified.
Management Comments	The Council is currently reviewing its arrangements for reporting savings through an internal audit and will take on board recommendations from both the internal auditor and external auditor in designing future improvements to reporting arrangements. Management agrees that including a RAG rating can help focus attention and provide assurance in a recognised simple and accessible format.

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

Governance

We considered how the Council:

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

Risk Management

The Council's Risk Management Strategy is reviewed each year with the most recent review in May 2023. The Strategy provides an overview of the Council's Risk Management Framework, risk identification, risk scoring, and responsibilities. The Corporate Risk Management (CRM) Group has delegated authority from the Chief Executive to lead on the approach. The CRM Group meets quarterly and discusses topical risk issues, monitors risk management and reports on governance issues to the Senior Leadership Team (SLT) and the Audit Committee.

Risk reporting

The Council's computerised risk management system details current and archived risks, their descriptions, risk scores, and mitigating controls. The Audit Committee is responsible for ensuring that risk management is effective and receives bi-annual reports on "High" risks in terms of key areas of activity and issues related to risk.

The 2022/23 Annual Risk Report presented in June 2023 indicated that there were 182 risks recorded in the Council's computerised risk system. As of November 2023, the number of risks reported increased to 224, with a focus on detailed risks linked to service areas.

Risk In Numbers

Total Risks	Total V/High Risks	Total High Risks	Total Medium Risks	Total Low Risks
224	9	55	60	100

Source: November 2023 Risk Update to the Audit Committee

Alignment of risks to corporate priorities

We previously recommended that "*The Council should consider refining its risk management arrangements to align with its strategic priorities.*" The Council's response was "*Management accepts this recommendation and we have taken steps to implement strategic priorities into our risk management process.*" As a result, the Council added a risk category to its systematic risk reporting to SLT and the Audit Committee, through re-categorising some risks as "strategic" rather than as financial, operational or compliance risks.

Having reviewed the Council's Strategic Plan, we can

Devon County Council | Strategic Plan 2021 – 2025

see that the Council's strategic risks are still not mapped to the delivery of its corporate objectives in the Strategic Plan. The Council's arrangements for both performance management and risk management should be streamlined so there is one integrated reporting framework for corporate objectives in the Strategic Plan, Key Performance Indicators (KPIs) for service delivery and the risk around delivery of those KPIs in the Strategic Risk Register.

Improvement Recommendation 3(a): Integration of performance management and risk management through the mapping of strategic risks to the achievement of corporate objectives and associated Key Performance Indicators (KPIs).

Governance (continued)

Response to risks

The Council identifies, assesses and scores its risks to give a "current (mitigated) risk score rating" in the "Risk Update" to SLT and the Audit Committee, below:

Appendix A – An extract of the Very Highest Rated Risks Based on Current (Mitigated) Risk Score.

Risk Title	Service Area	Risk Category	Current Impact	Current Likelihood	Current Rating	Risk Owner	Accountable Officer	Change direction	Score change since last review

However, good risk management practice would extend reporting on each high strategic risk to include information on further controls to be applied to give a subsequent "target risk score" for each risk. This would show how the Council is either reducing its risk profile or tolerating the level of risk. The Council's RM Strategy (page 8 of 11) describes the "*recognised approaches for controlling risks are described easily and simply in the four T's below*"

Page 411

Treat	• Using control countermeasures to mitigate impact or likelihood. • Ensuring effectiveness of existing mitigations and implementing new controls where considered necessary and cost effective.
Transfer	• This involves another party bearing or sharing the risk; e.g. through insurance or strategic partnerships.
Tolerate	• Where it is not possible to Treat or Transfer. Consideration needs to be given to how the risk and consequences of such are to be managed should they occur. This may require putting contingency plans in place, which is why Business Continuity is has such an important role to play in risk management, as it creates capacity to tolerate a certain degree of risk.
Terminate	• Deciding, where appropriate, not to continue or proceed with the activity in view of the unacceptable level of risks involved.

However, there is no "4T's ie treat, transfer, tolerate and terminate" reporting to SLT nor members on how the Council's risk profile is being managed in terms of subsequent plans and actions by management to treat, transfer, tolerate or terminate the Council's 9 "Very High", 55 "High" risks and 60 "Medium" risks reported to the Committee in the Risk Update Report in November 2023.

Risk appetite

The Council's RM Strategy recognises the concept of "risk appetite" and states that "*To develop a formal Risk Appetite Statement is a challenging activity but one that contributes to the consistent management of risk across an organisation, setting a clear strategic direction and outlining tolerances around controls. It provides a framework for enhanced reporting of instances where the appetite and specific risk thresholds are reached and thereby links into performance management.*" Having one risk appetite statement for a council, like Devon, is too high level given its critical financial position and service performance challenges in its demand led services.

We therefore recommend that the reporting of the 4 T's and the target score for each "very high" and "high" risk should be clearly documented in reports to senior management and members as part of the Risk Update report. The integration of risk and performance management is one that the Council's RM Strategy aspires to in terms of "*we will continue to work to action plans based on best practice from across the public and private sector*" but the Council's has yet to formulate how this will be taken forward. Notably, the integration of an organisation's performance and risk management framework is a private sector initiative called "Enterprise Risk Management (ERM)" and its application reflects that organisations that implement ERM are inherently more "risk mature". From a pragmatic point of view, it makes sense that where performance is lower than expected, then the risk around service delivery is higher. Risk management outcomes, rather than stopping at "current mitigated risk scores" need to be better reported, through the monitoring of the delivery of the Council's corporate objectives and KPIs, in order to totally embed risk management within the Council

Improvement Recommendation 3(b): We suggest that the Council discusses and documents the "risk appetite" for its each of its strategic risks after the application of the 4 T's outlined in its Risk Management Strategy..

Governance (continued)

Internal Audit

The Council has adequate Internal Audit and Local Counter Fraud Services provided by Devon Assurance Partnership (DAP). Regular reporting is provided to the Audit Committee who provide appropriate oversight and challenge. The Internal Audit Plan for 2022-23 was approved by the Audit Committee in March 2022 and confirms compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS). A summary of progress against the annual plan is presented to each Audit Committee meeting, setting out the work completed to date and any significant findings. The year end Head of Internal Audit Opinion (HoIAO) in 2022/23 was "Reasonable Assurance".

Whist the service provided by DAP is reasonable, there are improvements that could be made in terms of reporting its outcomes against KPIs in terms of the effectiveness of service delivery and also the monitoring of the implementation of internal audit recommendations.

Effectiveness of Internal Audit

The Internal Audit Plan does not clearly state the number of planned audit reviews and days for each review for the whole year, which on enquiry is 1,260 days. The Audit Plan is flexible and any changes are agreed formally with management on a regular basis and reported to the Audit Committee. However, the Annual Report from the Head of Internal Audit reports on levels of assurance and client satisfaction. but not outcomes in terms of actual reviews delivered against plan, the timeliness of reporting, and days spent on the reviews.

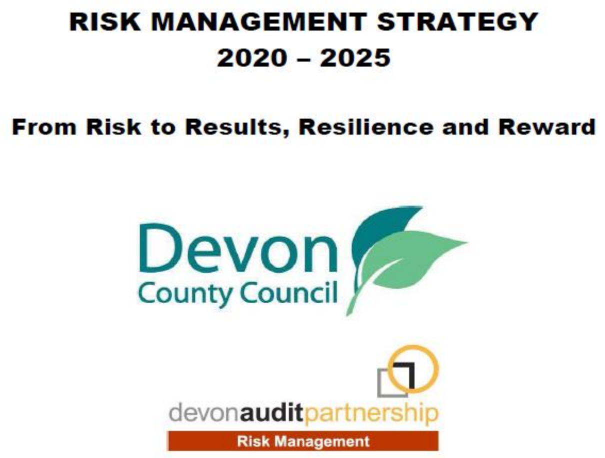
We also noted that Internal Audit does not have a system for tracking and reporting on the implementation of all outstanding audit recommendations. There is a priority system whereby high risk recommendations are followed up on in year. However, the issue around timeliness of implementation of medium or low priority recommendations would limit the effectiveness of the Council's internal control framework, and therefore the effectiveness of the Council's internal audit function.

***Improvement recommendation 4:** We recommend that Internal Audit implements a tracking system for outstanding recommendations to ensure that all high, medium and low recommendations are effectively addressed within agreed timescales. This will ensure that the Council's control environment is adequate.*

Internal audit's role in the Council's risk management process

The Council's RM Strategy states that:

- *"Devon Audit Partnership provide risk consultation services to the Council including support in respect of the risk management system, support to risk owners in developing risks and a consistent approach to risk assessment, and in reporting to senior management and to Members.*
- *To ensure that the Risk Management Function receives proper scrutiny, the Council's Audit Committee receives regular progress reports to monitor the effective development and operation of the risk management framework within the Council. "*


RISK MANAGEMENT STRATEGY
2020 – 2025

From Risk to Results, Resilience and Reward

Devon County Council

devonauditpartnership
Risk Management

Internal Audit should provide the Audit Committee with annual independent assurance on the effectiveness of the Council's risk management processes and procedures. However, Internal Audit, at the Council, is twin hatted and

Governance (continued)

potentially conflicted in terms of the following risk management roles:

(1) managing the Council's RM system and reporting on system outputs to SLT and the Audit Committee every quarter; and

(2) providing assurance over the effectiveness of the Council's RM arrangements to the Audit Committee.

Improvement recommendation 5: We recommend that the Council's Risk Management Strategy needs to be revised to clearly document (a) the role of DAP in the Council's RM Framework, and (b) how this independent assurance on the effectiveness of the Council's RM Framework will be provided by a suitably qualified third party.

Decision making

As outlined in the Council's Constitution, the Cabinet is responsible for day-to-day decisions, with major decisions published in the Council's Forward Plan and taken with council officers present at meetings open to the public. The Cabinet makes e decisions in line with the Council's policies and budget, with matters outside of this referred to the full Council to decide. Scrutiny Committees support the work of the Cabinet and Council by looking into policies and matters of local concern, leading to reports and recommendations for the Cabinet and Council. The Council's Monitoring Officer ensures decisions and relevant reports are publicly available. In an ethical governance survey conducted between August and October 2022, more than 76% felt the Council had a culture allowing members to challenge decisions without fear of reprisal. Service plans were developed annually to inform the Executive Committee's work plan, and the Overview and Scrutiny Committees played a key role in reviewing customer complaints to identify trends and opportunities for learning. The Council also had a customer feedback system through the "Have Your Say" approach, which included a formal complaints policy and a designated officer to monitor complaints.

Audit Committee

The Audit Committee is responsible for overseeing financial and information systems, monitoring audit performance and risk management systems, and ensuring compliance with codes of practice and policies. The committee is comprised seven members, in line with CIPFA guidance. During 2022/23, the committee held four meetings, with six members attending at least three. Our review of committee minutes shows that members provide adequate challenge, requesting further detail on investigations and irregularities and questioning officers on limited assurance reports. However, there was no Audit Committee self-assessment of its effectiveness in year, nor an appointment of a co-opted independent member to advise the Audit Committee, both of which are good practice recommendations from CIPFA on the effectiveness of Audit Committees.

Improvement recommendation 6:

The Audit Committee should carry out a self-assessment of its effectiveness each year and report on the outcome at the end of the financial year. The appointment of a co-opted independent member to advise the Audit Committee is recommended good practice to mitigate the risk of any political bias by committee members.

Fraud Detection

The Devon Audit Partnership carries out anti-fraud work, investigating potential fraud and irregularities and conducting pro-active anti-fraud and corruption testing of systems at risk. The 2022/23 plan includes policy implementation, focused reviews, reducing fraud risk in systems, assurance on corporate risk, investigation of potentially fraudulent activity, and training and awareness. The Annual counter fraud report presented to the Audit Committee in June 2023 showed that the Counter Fraud Services Team received 85 referrals, with 55 relating to potential Blue Badge misuse and 22 related to the loss or theft of IT equipment.

Governance (continued)

Standards and Behaviour

The Constitution provides guidance on expected standards of behaviour for members, including Members Code of Conduct, Employees Code of Conduct, and Whistleblowing Policy. The Standards Committee is responsible for promoting and maintaining high standards of conduct, advising and training members on the Members' Code of Conduct, monitoring its operation, and considering complaints alleging breaches of the Code of Conduct by Members.

The Council has guidance on member complaints and the complaints process, which was streamlined and revised in March 2022. In the 2022/23 annual report by the Monitoring Officer to the Standards Committee, highlighted that seven complaints were received on alleged breaches of the Members Code of Conduct. Following an initial assessment of each complaint and consultation with an Independent Person appointed by the Council, it was agreed that four of the seven complaints did not breach the Code. The remaining complaints were found to breach the Code, and the Member accepted and apologized for their behaviour.

The Council conducted an ethical governance survey between August and October 2022, with nearly 74% of respondents feeling that the council made information easily available about matters considered by the Cabinet and other committees. However, only 43.5% of respondents felt that members were trusted by the local community, and only 32.6% felt that officers were trusted. Further exploration may be necessary to understand these views and identify potential actions to improve community trust in council members and officers.

Conclusion on Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements. It has adequate arrangements in place for ensuring that it made informed decisions and managed its risks. We have made four improvement recommendations to further develop the Council's strategic risk management approach, report on the implementation of audit recommendations through a tracker and on the Audit Committee carrying out an annual self-assessment of its effectiveness.

Improvement recommendation

Improvement Recommendation 3	We recommend the: (a) Integration of performance management and risk management through the mapping of strategic risks to the achievement of corporate objectives and associated Key Performance Indicators (KPIs). (b) Discussion and documentation on the "risk appetite" for each of its strategic risks after the application of the 4 T's (ie treat, transfer, tolerate and terminate") outlined in its Risk Management Strategy.
Summary findings	Each risk on the Strategic Risk Register is linked to a specific category (either Performance, Strategy, Finance, or Governance) and has a description, control measures, and a risk score which is RAG-rated. Any additional control measures or resources required are identified. However, the Council's risks are not mapped to the delivery of its corporate objectives in its strategic plan. The Council's arrangements for both performance management and risk management could be better streamlined so there is one integrated reporting framework for the Corporate Objectives, Business Plan, KPIs and the Strategic Risk Register.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a potential improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	a) Cabinet agreed to introduce a performance framework for the Authority at its meeting in December 2023. The framework will set targets and measures for the authority's key priorities and will be complemented by operational performance reporting within services. Regular reports will be shared on progress with Cabinet and be reported alongside budget and financial performance and risks. A Performance Board is also being established. Risks are already linked to corporate objectives via the "Themes" section in the Risk Register, we can review that to ensure that they are linked to the latest Corporate Objectives. We recognise the common practice to try and link risk to performance information and with the work commenced in December this can now take place. We will work with the Director of Performance and Partnerships (Interim) who as noted above is focused on compiling performance information. (b) Within the information reported to SLT and Audit Committee we have reduced the level of detail provided to more of a snapshot, and increased access to the live data. Service Leadership Teams regularly review their risks in more detail and can bring items to the DCC SLT outside of the core reporting should they feel it relevant. We do not consider at this time that adding a specific tag based on the Four T's will add more than is recorded within the current information. Should this be added then it would be incumbent on the service areas to action. The creation of risk appetites was explored prior to 2020 but the level of effort vs reward was too high, making the process more complex. Risk Appetite has been built into the Policy under four main areas (See pages 4-5 of the Risk Management Policy). This shows that for example a lesser Risk Appetite is in place for risk that fall into Compliance, Regulation & Safeguarding or financial categories, ensuring recognition and a clear corporate wide approach. To strengthen this further the Target Risk Score is part of the Risk Management System, and this indicates the appetite on a risk-by-risk basis in a clear way. All staff including SLT can see this information, therefore, the findings presented in the VFM report are not representative of the policy and activity that takes place in relation to risk appetite.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Authority to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation

Improvement Recommendation 4	**We recommend that Internal Audit implements a tracking system for outstanding recommendations to ensure that all high, medium and low recommendations are effectively addressed within agreed timescales. This will ensure that the Council's control environment is adequate.**
Summary findings	Internal auditors are responsible for providing independent and objective assurance to the organization's governance, risk management, and control processes. However, if internal audit does not follow-up on the implementation of its recommendations then it can reduce the effectiveness of internal audit.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a potential improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Current arrangements take a risk-based approach to following up audit recommendations. Directors / Managers are responsible for delivering agreed actions. Additionally internal audit follows up as follows: -Core financial systems and controls are audited every year. -Limited or No Assurance reports are followed up in the following year's audit plan or sooner if appropriate. -High risk rated recommendations for all reports are followed up on a timely basis by internal audit. Implementing a new system of tracking will require additional resources however this will be explored further by the Finance & Public Value Leadership Team as the recommendation is supported in terms of providing further assurance.

Page 416

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

Improvement recommendation

Improvement Recommendation 5	We recommend that the Council's Risk Management Strategy needs to be revised to clearly document: (a) the role of Devon Assurance Partnership in the Council's Risk Management (RM) Framework, and (b) how the annual independent assurance on the effectiveness of the Council's RM Framework will be provided to the Audit Committee by a suitably qualified third party.
Summary findings	Internal Audit should provide the Audit Committee with annual independent assurance on the effectiveness of the Council's risk management processes and procedures. However, Internal Audit, at the Council, is twin hatted and potentially conflicted in terms of its two risk management roles for managing the system as well and independently reporting on the effectiveness of the Council's PM framework.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a potential improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Then risk management policy and strategy are due to be revised in 2024 due to broader contextual changes and the recommendations will be considered at that time.

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

Improvement recommendation

Improvement Recommendation 6	**The Audit Committee should carry out a self-assessment of its effectiveness each year and report on the outcome at the end of the financial year. The appointment of a co-opted independent member to advise the Audit Committee is recommended good practice to complement the knowledge and experience of existing members.**
Summary findings	The annual self-assessment would allow the Audit Committee to report annually on how the committee has complied with the CIPFA Position Statement, discharged its responsibilities, and include an assessment of its performance. The appointment of a co-opted independent member to advise the Audit Committee is also good practice.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a potential improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The Council recognises it is accepted good practice to review the effectiveness of the audit committee and will undertake to develop arrangements for implementation during 2024/25. The Head of DAP has led on the appointment of an Independent Member, a preferred candidate has been chosen following a robust recruitment exercise, which will be reported at the February meeting of the Committee with a view to the appointment being confirmed. This process was started in autumn 2023 and the report going to Audit Committee in February 2024 is the final step. This will all be in place from the commencement of the 24/25 financial year.

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

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Strategic planning

In July 2023, the Council reaffirmed the commitment to, and support for, the "Best Place" Strategic Plan 2021 – 2025 and agreed its six areas of focus for the Corporate Plan for the next 12 months. In addition, service area plans would be developed over three months linked to the: Strategic Plan 2021-2025, six areas of focus, key risks and the People Strategy – 'People First'.

Information about the performance of the Council's services and activities was also published in various forms and formats, but the Cabinet did not currently receive regular reports on the performance of the Council's services or progress against the "Best Place Strategic Plan 2021-2025".

The agreed six areas of focus for the Corporate Plan for the next 12 months are:

- 1. Governance and performance review.
- 2. Value for money and financial sustainability covering Staffing, Contract management, Efficiency of services, Income generation and full cost recovery, Use of assets and buildings;
- 3. People strategy.
- 4. Replacement systems (FINEST and CareFirst).
- 5. Equality, diversity and inclusion.
- 6. Devon, Plymouth and Torbay devolution deal.

Performance and financial information

Information about the performance of the Council's services and activities was published in various forms and formats and the Cabinet did not receive regular reports on the performance of the Council's services or progress against the "Best Place Strategic Plan 2021-2025". Our previous VFM report recommended that the Council's performance management framework could be enhanced by:

- introducing a proportionate framework of high level strategic KPIs to monitor the Council's delivery of strategic objectives.

In December 2023, Cabinet agreed the proposal for the introduction of a corporate performance framework in June 2024.

The Proposed Framework will be introduced at three levels : Strategic performance, Directorate/service performance and Change and improvement plans and programmes. The next steps for implementation will be for the Strategic Leadership Team to put the following in place :

1. Regular reporting to Cabinet from April 2024 onwards to provide data and information that enables:

o Assessment of performance against the goals and priorities of the "Best Place Strategic Plan 2021-2025"

o Performance management of service areas where decisions are required about improvement.

2. Annual performance report to Council on 23 May 2024.

3. Local Government Association Corporate Peer Challenge (w/c 10 June 2024) to review progress.

4. Ensuring that staff appraisals are linked to the Council's key performance indicators.

Improving economy, efficiency and effectiveness (continued)

It is envisaged that these four steps will be the first stage in the establishment of the corporate performance management framework with the next stages to include:

• The use and reporting of performance indicators and metrics to assess progress with Directorate plans.

• Using a digital performance dashboard to complement the risk management dashboard.

Data Quality

The basis for good performance information is assurance that the information is based on good quality data. Good quality data is data that is fit for purpose. That means the data needs to be good enough to support the outcomes it is being used for. Data values should be right, but there are other factors that help ensure data meets the needs of its users, such as data governance, design, data management .

Improvement recommendation 7: The Council should develop a Data Quality Strategy articulating how it will obtain assurance over the quality and integrity of the data used to inform KPI's, with a view to including an assessment/rating of specific data sets within performance reports.

Benchmarking

The Council has developed tools such as using PowerBI for benchmarking performance, including comparing ASCOF indicators against other comparable authorities or regions. These tools enable the council to drill down into survey data to better understand people's lived experience. The council's annual report also includes benchmarking of activity, cost and spend data, which informs financial planning and provides an evidence base to develop their strategies and delivery plans. The council have now developed over 100 PowerBI tools using national and local data to inform their performance management, needs analysis, market shaping and other activities.

Assessing performance and identifying improvement

Workforce planning

Workforce issues exists within the Council in terms of manageable workloads, an over reliance on agency staff in some key services, ensuring stability in teams and wellbeing supervision as well as pay compared to other councils in some services. In response, a strategic Workforce Strategy has been developed for 2022/23 . The strategy details four key areas of focus as Reward, Resourcing, Inclusion, Voice with specific budget allocation for 2022/23 for three of the four areas.

Next steps are for the specific workforce planning undertaken with service areas to feed into a longer-term workforce strategy (integrated with financial planning) that will enable the delivery of the Best Place Strategic Plan with the aim to create a trusted, innovative and inclusive culture.

There is also a separate Workforce Strategy in place for SEND which is available on the Councils website. The " People First" Strategy 2023 -2025 was launched in June 2023. Through feedback and engagement with staff and members six themes were identified in developing the strategy that will impact on performance and culture. These are recruitment, wellbeing, reward, belonging, learning and voice.

Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors. This trend has seen an increase in the use of more expensive agency staff and use of interims. At the Council

The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear.

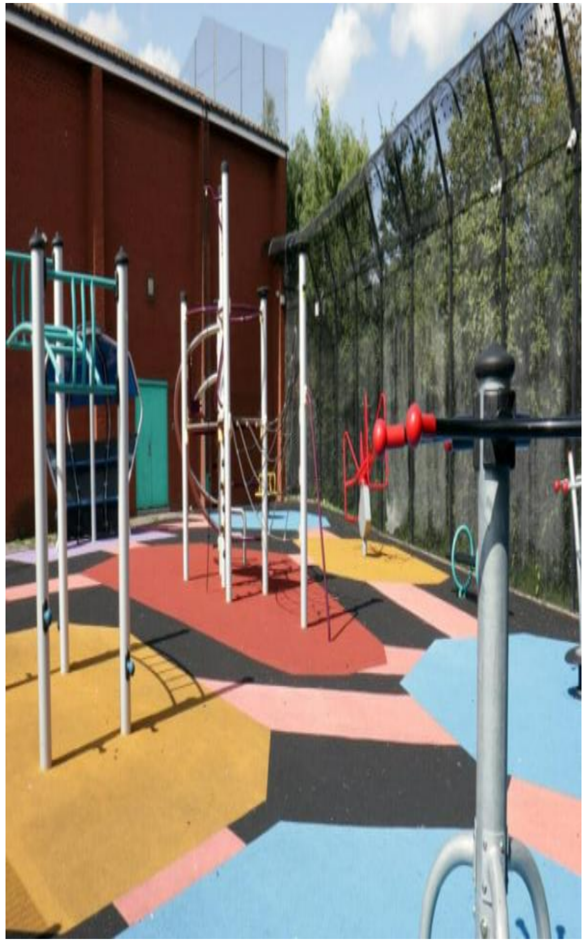
The workforce strategy needs to be clearly linked with strategic objectives and financial planning. Without a corporate workforce plan, Councils cannot take a strategic view of how the needs of the council in terms of human resources will develop over the medium term and appropriate development through training and recruitment may not be undertaken.

Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement (continued)

Children's Services

Children's Services have been rated "Inadequate" by Ofsted. The Council continues to invest in the service and indications are that some progress is being made. As expected it will be several years before all improvements are complete and the "Inadequate" rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area.



The Council's Children's Services was rated as "inadequate" in an Ofsted Inspection Report in January 2020. This repeated a conclusion of inadequate in relation to the service for care leavers initially dating back to 2015, and although a focused visit in 2018 recognised some improvements, a joint inspection by Ofsted and the CQC in 2018 led to a Written Statement of Action for SEND in 2019. The recent conclusion from the SEND revisit, in May 2022, was that "*The area has not made sufficient progress in addressing any of the significant weaknesses.*" Despite significant investment by the Council, a revised Statutory Declaration for DCC Children's Services was put in place on 10 October 2022 as the Council's was still failing to perform to an adequate standard. This statutory declaration appointed a new Commissioner for Children's Services until the Council achieve an adequate rating.

During 2022/23, there has been senior leadership change in Children's Services as the Council acts on implementing improvements. The Chief Officer for Children's Services left in November 2022 and the subsequent Acting Director of Children and Young People's Futures left in February 2023. The Children's Services Improvement Partnership Board monitors the implementation of both the Social Care Improvement Plan and the Partnership Improvement Plan at its monthly meetings. This includes consideration of the performance measures agreed for each of those plans. In March 2023 the Council's Children's Improvement Board, which reports to the Scrutiny Committee, agreed to reset its focus and approach so as to:

- clarify and create shared understanding of the role and purpose of the Board, particularly with new system leaders and Board members
- create the conditions for Board meetings to focus on key outcomes and associated actions
- create partnership priorities, outcomes and actions to become part of the Devon Children's Services Improvement Plan.

The headline findings from an Ofsted visit in April 2023 stated that the "*Quality of social work practice across Devon remains inconsistent. Most Children in care experience delays in securing permanent homes. this is mostly due to social workers lacking the confidence, professional curiosity and guidance required to understand children's needs and plan for their futures. Weak Management oversight through supervision, insufficient challenge by independent reviewing officers, gaps in recording and poor care planning are often the root cause of delays. Quality assurance through auditing still lacks sufficient impact in driving improvements in practice and has required a significant restart*".

Improving economy, efficiency and effectiveness (continued)

Children's Services (continued)

The outcome of the Ofsted visit in September 2023 on Care leavers concluded that "*Quality assurance, including audits, have yet to make a substantial impact on practice for this group of young people but the plan for increasing volume, standardisation of what 'good' looks like and the sharing of themes is making steady progress from a very low starting point*"

The **"Devon Childrens Services Improvement plan April 2023- March 2024"** has been developed which sets out actions for :

- Children's Services, developed by SLT, through knowledge, data and understanding, and through the operational work of the Children's Services Heads of Service;
- corporate services which are created and governed through a regular strategic Quality Performance and Review Meeting;
- improvement partners including social care, education, health and police which are developed and governed through the Improvement Partnership Board.

The Improvement plan details key priorities and actions and sets out the Quality Assurance Framework for monitoring including:

- Data Performance Information
- Workforce Development
- Service User Feedback
- Peer review and challenge
- Practice evaluation activity

In terms of reporting on the outcomes of the work of the Children's Improvement Board, we found that the December 2023 Children's Scrutiny report could have better summarised. Achievements against plan, risks to performance and next steps could have been highlighted in a narrative report to better enable members to gain assurance on the progress being made in developing an adequate children's service. On review of the table of "Social Care Improvement Plan Measures" reported to member, we could see that were 11 red rated KPIs, 6 amber KPI and 12 green KPIs, however there were 10 KPIs for which no RAG rating was provided; as shown in a report extract below:

Reference	Measure	Apr-23		Nov-23		
		Baseline	Target	Actual	Number	DoT (to target)
1.0	Contacts to children's social care (per 10,000)	392	450	459	2039	↑
1.1	Conversion contact to referral	30%	TBC	31%	632 / 2039	
1.2	Conversion contact to Assessment	28%	TBC	19%	387 / 2039	
1.3	Number of referrals	409	TBC	599	599	
1.4	% of referrals which are repeat referrals	23%	19%	22%	132 / 599	↑
2.0	Initial Assessments completed in the period (per 10,000)	391	425	381	466	↑
2.1	% initial assessments with outcome Case to Close	41%	38%	59%	275/466	→
2.2	% of initial assessments completed in 45 days	85%	90%	79%	368/466	↓
3.0	Section 47 enquiries (per 10,000)	222	190	201	246	→
3.1	% S47s that progress to ICPC	26%	35%	8%	16 / 246	↓
3.2	ICPCs (per 10,000)	71	58	51	62	↓
3.3	% ICPCs completed within 15 days of S47	67%	80%	77%	48	→

The Council has made significant financial investment in Children's Services during 2022/23 and 2023/24. It needs to enhanced its governance and oversight arrangements with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating.

The Council is making progress as demonstrated by some improvements in performance. However, there is clearly more work to do and, as expected, the process will take a number of years to fully complete. Arrangements have not progressed sufficiently during 2021/22 or 2022/23 to conclude that there is no longer a significant weakness in arrangements. **We have therefore raised a key recommendation in terms of improving the governance and oversight of Children's Services. There is <u>a continuing risk of significant weakness</u> in relation to children's social care in 2022/23** .

Improving economy, efficiency and effectiveness (continued)

Partnership working

The Council has appropriate arrangements in place for working in partnership. There are a number of successful partnerships in which the County Council participates. The most significant of these as being the Better Care Fund whereby 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.

Other examples of key partners are :

- The Devon Youth Justice Team
- The Devon Children and Families Partnership
- Adopt South West (a Regional Adoption Agency)

Partners are managed by the relevant service area and we observed that local plans and strategies are developed and delivered in close co-operation with partners. For example the System development and Improvement winter update report described the challenges being experienced across the Devon Health & Social Care system including staff strikes, increased periods of demand and on-going infection prevention and control issues and the delivery of goals to be achieved through whole system collaboration involving NHS Devon (the Integrated Care Board), the One Devon Partnership, social care partners, Local Care Partnerships (LCP) and Provider Collaboratives, including partners across public services and the third sector.

Commissioning and procurement

The Council has effective arrangements in place to manage procurement. The procurement policy (in the Constitution) is supported by a Procurement Strategy which is published on the Council's website. Implementation of the strategy is executed by the Strategic procurement team known as Devon Procurement Services. The team also facilitate the Southern Construction and Consultancy Frameworks for any public sector body across south of England. The procurement team, work within a comprehensive framework using category management principles.

A variety of mechanisms are in use, proportionate to the significance of the contract, to ensure that procurement activity is properly managed. These include toolkits, corporate negotiating groups, 'meet the buyer' events, a delivery model appraisal, risk assessment and structured checklists (such as the Procurement Key Themes Checklist which links back to the Procurement Strategy).

The Council has comprehensive procurement arrangements in place, with a large team of procurement specialists who provide services to Devon CC and beyond. An up-to-date strategy is in place, supported by a Lifecycle Category Management and Strategic Sourcing Model and toolkit which together provide a clear governance framework for procuring and commissioning services.

Improving economy, efficiency and effectiveness (continued)

Commissioning and procurement (continued)

Response to Climate Change

The Council has created a dedicated page on its public website called Energy and Climate Change Reducing emissions and improving resilience. In line with this, the Devon County Council has declared a climate emergency and committed to reducing Devon's carbon emissions to net-zero by 2050 at the latest. To achieve this, the council is leading a partnership that aims to create a Devon Carbon Plan and a Devon, Cornwall, and Isles of Scilly Adaptation Plan in response to the Devon Climate Emergency.

The council also reports its carbon footprint annually and has a plan to become net-zero carbon by 2030, including emissions from the goods and services it purchases. To coordinate regional action on climate adaptation, the Devon, Cornwall and Isles of Scilly (DCIoS) Climate Impacts Group (CIG) is working with environmental consultants RSK to progress the Adaptation Strategy. This work has included a review of the Climate Change Risk Register, identification of strategic adaptation options, and the creation of an Action Plan for regional collaboration on adaptation over the next five years. The Adaptation Strategy was published for public consultation in May 2023 and was published in November 2023.

Conclusion on improving economy, efficiency and effectiveness

The continuing inadequate rating and the intervention of a commissioner for Children's Services highlight the significant weakness in the Council's arrangements. We have made a key recommendation to improve governance and oversight arrangements with progress reports for Cabinet which set out the improvement areas identified by Ofsted with expected outcomes and Key Performance Indicators to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating.

Improvement recommendation

Improvement Recommendation 7	**The Council should develop a data quality strategy articulating how it will obtain assurance over the quality and integrity of the data used for the KPI's in the new corporate performance framework, with a view to including an assessment of specific data sets within performance reports.**
Summary findings	Good quality data is data that is fit for purpose. That means the data needs to be good enough to support the outcomes it is being used for. Data values should be right, but there are other factors that help ensure data meets the needs of its users, such as data governance, design, data management. The Council does not have a Data Quality Strategy articulating how it will obtain assurance over the quality and integrity of the data used to inform KPI's,
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Part of establishing a Corporate Performance Framework will be considering a data quality strategy to assure the quality and integrity of data used to demonstrate the improvement and performance of the authority. An audit is being prepared to consider the data quality of information held within the Eclipse system and how this is used to report performance across Children's Social Care. This audit will also feed into the specification of a new Case management system being developed for a joint system across adults and children services.

Page 425

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Action plan for 2022/23 recommendations

Recommendation	Type of recommendation	Date raised	Progress to date
2022/23 Key recommendations from Significant Weaknesses			
Financial Sustainability The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing all members need to ensure that there is a robust response to financial matters and that officers are supported in making the changes needed. Progress in delivering savings, transformation plans and the DSG Safety Value Plan should be tracked by Cabinet and Scrutiny Committees each month.	Key	February 2024	The Council continues to place high importance on maintaining financial sustainability and continues to respond robustly to financial challenges. Delivery of savings will continue to be highlighted in bi-monthly reports to Cabinet. Management will review reporting requirements for 2024/25 to deliver improvements in reporting on the delivery of savings and will consider more frequent reporting either by routine or by exception considering risk and volatility. Clear governance and reporting requirements regarding SEND improvements and deficit management has been established in the autumn 2023 and has been incorporated in the Council's submission to Government through Safety Valve discussions. Should a Safety Valve agreement be reached it is envisaged this will require significant regular reporting.
Improving economy, efficiency and effectiveness. The Council needs to enhance its governance and oversight arrangements over Children's Services with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating.	Key	February 2024 Please note the FULL response on page 9	Financial sustainability and improved outcomes for children and young people is a top priority for the Council. In Summer 2023, DCC revisited its DSG management and sustainability plans and has since developed an improved governance framework to oversee the delivery of the SEND Transformation Programme. This includes the governance structure, defined programme and project management and action plans with clear responsibilities, and with risk management embedded. The Council will maintain these governance arrangements, with potential adjustments to the reporting and meeting schedule to align with the proposed DfE Safety Valve monitoring arrangements. The Council is developing a Safety Valve Dashboard to support monitoring arrangements. Reporting is proposed to include reports to DCC Strategic Leadership Team (SLT) bi-monthly, Cabinet approximately 3 times per year, with scrutiny provided through our Overview & Scrutiny Committee at least twice a year.

Page 426

Action plan for 2022/23 recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date
	Financial Sustainability			
1	Given the Council's significant financial challenges, we suggest that Cabinet should receive monthly updates on the Council's financial position in-year so that it may be informed of the monthly service and corporate variances to budget and remedial actions being taken by management.	Improvement	February 2024	Management is satisfied that its current arrangements for public reporting to committee on financial performance on a bi-monthly basis is sufficient. SLT and cabinet members meet frequently and receive updates monthly, or indeed immediately if quicker action is required, enabling ongoing visibility and control to be applied by the Council's leadership. Management does not consider this leadership is impaired by only reporting publicly to committee every two months. Current monitoring in the interim months, when no formal committee report is provided, only focusses on high-risk, high-value budgets not the entire budget that is incorporated in bi-monthly reports.
2	We suggest that savings plans are RAG (Red, Amber, Green) rated, as part of the reporting on the progress of achievement of savings so that officers and members are aware, in monthly financial reports to Cabinet, of the high risk schemes that are less likely to be delivered; and what alternative savings plans are in place to address any financial in-year deficits.	Improvement	February 2024	The Council is currently reviewing its arrangements for reporting savings through an internal audit and will take on board recommendations from both the internal auditor and external auditor in designing future improvements to reporting arrangements. Management agrees that including a RAG rating can help focus attention and provide assurance in a recognised simple and accessible format.
	Governance			
3	We recommend the: (a) integration of performance management and risk management through the mapping of strategic risks to the achievement of corporate objectives and associated Key Performance Indicators (KPIs). (b) discussion and documentation on the "risk appetite" for each of its strategic risks after the application of the "4 T's" (ie treat, transfer, tolerate and terminate) outlined in its Risk Management Strategy.	Improvement	February 2024	(a) Risks are already linked to corporate objectives via the "Themes" section in the Risk Register, we can review that to ensure that they are linked to the latest Corporate Objectives. We recognise the common practice to try and link risk to performance information and with the work commenced in December this can now take place. We will work with the Director of Performance and Partnerships (Interim) who as noted above is focused on compiling performance information. (b) We do not consider at this time that adding a specific tag based on the Four T's will add more than is recorded within the current information. Should this be added then it would be incumbent on the service areas to action. The creation of risk appetites was explored prior to 2020 but the level of effort vs reward was too high, making the process more complex. Risk Appetite has been built into the Policy under four main areas (See pages 4-5 of the Risk Management Policy).

Action plan for 2022/23 recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date
	Governance			
4	We recommend that Internal Audit implements a tracking system for outstanding recommendations to ensure that all high, medium and low recommendations are effectively addressed within agreed timescales. This will ensure that the Council's control environment is adequate.	Improvement	February 2024	Current arrangements take a risk-based approach to following up audit recommendations. Directors / Managers are responsible for delivering agreed actions. Additionally internal audit follows up as follows: -Core financial systems and controls are audited every year. -Limited or No Assurance reports are followed up in the following year's audit plan or sooner if appropriate. -High risk rated recommendations for all reports are followed up on a timely basis by internal audit. Implementing a new system of tracking will require additional resources however this will be explored further by the Finance & Public Value Leadership Team as the recommendation is supported in terms of providing further assurance.
5	We recommend that the Council's Risk Management Strategy needs to be revised to clearly document: (a) the role of Devon Assurance Partnership in the Council's Risk Management (RM) Framework, and (b) how the annual independent assurance on the effectiveness of the Council's RM Framework will be provided to the Audit Committee by a suitably qualified third party.	Improvement	February 2024	Then risk management policy and strategy are due to be revised in 2024 due to broader contextual changes and the recommendations will be considered at that time.
6	The Audit Committee should carry out a self-assessment of its effectiveness each year and report on the outcome at the end of the financial year. The appointment of a co-opted independent member to advise the Audit Committee is recommended good practice to complement the knowledge and experience of existing members.	Improvement	February 2024	The Council recognises it is accepted good practice to review the effectiveness of the audit committee and will undertake to develop arrangements for implementation during 2024/25. The Head of DAP has led on the appointment of an Independent Member, a preferred candidate has been chosen following a robust recruitment exercise, which will be reported at the February meeting of the Committee with a view to the appointment being confirmed. This process was started in autumn 2023 and the report going to Audit Committee in February 2024 is the final step. This will all be in place from the commencement of the 24/25 financial year.

Action plan for 2022/23 recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Further action?
	Improving economy, efficiency and effectiveness				
7	The Council should develop a data quality strategy articulating how it will obtain assurance over the quality and integrity of the data used for the KPI's in the new corporate performance framework, with a view to including an assessment of specific data sets within performance reports.	Improvement	February 2024	Part of establishing a Corporate Performance Framework will be considering a data quality strategy to assure the quality and integrity of data used to demonstrate the improvement and performance of the authority. An audit is being prepared to consider the data quality of information held within the Eclipse system and how this is used to report performance across Children's Social Care. This audit will also feed into the specification of a new Case management system being developed for a joint system across adults and children services.	

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Further action?
	Key recommendations from Significant Weaknesses				
	Financial Sustainability. The Council needs to agree and implement the DSG Recovery Plan. Delivery must be closely monitored and prompt corrective action taken to ensure that plans remain on track. This work needs to be carried out in conjunction with the Devon Education Forum who therefore need to 'buy in' to the action plans and we have made separate improvement recommendation on this.	Key	March 2023	We recognise that our intended approach did not fully deliver in 2021/22. Therefore additional rigour will be applied to future processes including more robust modelling and analysis, involving a wider breadth of officers.	Follow up in 23/24
	Improving economy, efficiency and effectiveness. The Council needs to ensure that the direction of travel for children's social care services continues in the right direction and that the planned new practice model and action plans are implemented and monitored. The ambitions in the strategic plan should be connected to clear goals and actions.	Key	March 2023	The recommendations are noted. The Council has taken steps to bring new leadership into Children's Services whilst also focussing all services across the Council onto supporting Children's Services to drive improvement as a matter of urgency.	Follow up in 23/24
	Financial Sustainability				
1	The Council should complete an operational effectiveness review of the Devon Education Forum.	Improvement	March 2023	Management recognises the recommendation and will give due consideration to the objectives, benefits and responsibility for a review of the operational effectiveness of the Devon Educational Forum, at the next schedules evaluation of the Authority's internal audit plan.	No
2	The Council needs to ensure that • robust savings plans are made to deliver recurrent savings and that implementation is properly tracked and monitored, with actions taken to ensure that the plan remains on track; and • progress on savings delivery (for both service area budgets and the Financial Sustainability Programme) are reported to Members with brief explanations of variances and changes.	Improvement	March 2023	The Council has taken action to establish a cross organisation Financial Sustainability Programme which involves senior officers designing, testing, and scrutinising savings and income proposals and income solutions across different directorates for added assurance. We have also strengthened accountability for savings delivery and financial management at the Council's Strategic Leadership Team. Performance against budget is carefully monitored on an ongoing basis which reflects delivery against estimates and assumptions for all spend and income including anticipated savings.	No

Page 430

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Further action?
3	The Council should distinguish between statutory and discretionary spend to identify choices being made by the Council in what it chooses to fund and why.	Improvement	March 2023	We do not recognise the binary difference between statutory and non-statutory services. The efficient delivery of services in order to fulfil the statutory duties of a county council is a complex matter with only a hypothetical distinction between statutory and non-statutory services or degrees of service provided.	No
	Governance				
4	The Council should consider refining the risk management arrangements to align with its strategic priorities.	Improvement	March 2023	Management accepts this recommendation and we have taken steps to implement strategic priorities into our risk management process.	Yes – IR on risks mapped to delivery pf corporate objectives and KPIs
5	There is an opportunity to enhance risk management by including sources of assurance as part of the Risk Management Annual Report.	Improvement	March 2023	The recommendation is accepted, and officers will incorporate further information in its Annual Report	No
6	More detailed narrative should be provided on the savings delivery in the 2022/23 Financial Sustainability Programme, including an indication of whether the savings are recurrent. This should also be considered for the budgeted savings.	Improvement	March 2023	Given the timing of this report it is not proposed to retrospectively report on 2022/23, however management will consider the opportunity to reflect more granular reporting on the delivery of savings from 2024/25 onwards.	Follow-up in 23/24
7	The implementation of the annual renewal of declarations of interest should be strengthened with a robust timetable and more timely reminders. Non-respondents should be followed up promptly.	Improvement	March 2023	The recommendation is accepted, and processes will be updated to strengthen controls in reporting of declarations of interest.	Follow-up in 23/24

Page 431

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Further action?
	Improving economy, efficiency and effectiveness				
8	The performance management framework could be enhanced by: • introducing a proportionate framework of high level strategic KPIs to monitor the Council's delivery of strategic objectives • developing a systematic approach to the oversight of the work of significant partners.	Improvement	March 2023	Management is confident in the robustness of existing frameworks across the Council but recognises that there are benefits to developing overarching performance management frameworks. There are challenges in developing an efficient and timely process for this, but schedules replacement programmes of the Council's aged financial system and adult care management system (both of which are underway) will bring forward opportunities to address this.	Yes
	The Council should ensure that a Workforce Strategy is adopted and implemented and that it is properly integrated with financial plans given the current recruitment challenges and the impact of the National Living Wage on budgets.	Improvement	March 2023	The COVID19 pandemic has had a detrimental impact on planned renewal of strategies, but workforce – People First – is recognised as a priority and is currently being addressed by the new executive Strategic Leadership Group of the Council.	Follow-up in 23/24
10	The Council should ensure that it uses and acts on the benchmarking data and reports available to it and ensure that this work is progressed in a structured way.	Improvement	March 2023	Management recognises the value that external benchmarking and sharing of practice can bring. The Council has recently invested in CFO Insights, a local authority benchmarking tool, and promoted within the organisation including at leadership level. Management will continue to develop external awareness and comparison across the sector to inform our strategic decision making and augment our Key Lines of Enquiry in our financial planning exercises.	No – evidence of benchmarking provided for 22/23 audit

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Further action?
	Improving economy, efficiency and effectiveness				
11	The Council must continue to robustly monitor its delivery partners and other stakeholders for signs of financial stress and/or failure to deliver.	Improvement	March 2023	The Council continues to operate a robust process of supplier monitoring, for example through the procurement service working with commissioning leads / contract managers. Some underlying market challenges are resulting in provider failures or lack of continuity, and anticipating the pandemic's impact on supplier financial resilience, an internal audit was commissioned to review the Council's approach and provide assurance. A risk-based prioritisation is incorporated within the monitoring approach which identifies providers considered strategic or on which DCC is more dependent. Detailed financial reviews also take place ahead of contract novation.	No
12	The Council needs to ensure that an appropriate balance is kept between achieving value for money in procurement and prioritising procurement resourcing to achieve that.	Improvement	March 2023	The Council is satisfied with arrangements to prioritise resources to support key activities. Audit opinion that the Council has effective arrangements to manage procurement is welcomed, the comments are fair. The Council must ultimately operate within finite resources and maintain procurement arrangements that are both affordable and deliver value for money. This balance is managed on an ongoing basis through service planning and budgeting. Service capacity has reduced through deletion of vacancies and scaling within affordable budget; however, mitigation includes taking some income generation opportunities to help sustain core capacity and replacing staff leavers via a 'develop and train' strategy. Management is satisfied that sufficient resources are in place to maintain compliant procurement which helps to provide ongoing assurance.	No

Page 433

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Authority's financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- We conducted our audit in accordance with:
- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Authority in accordance with applicable ethical requirements, including the Financial Reporting Authority's Ethical Standard.

Audit opinion on the financial statements

We issued an unqualified opinion on your 2021/22 financial statements on 2 November 2023.

Our work on the 2022/23 financial statements is well progressed and we will present our Audit Findings Report setting out the findings from our detailed work to Audit Committee in late February 2024.We anticipate issuing an unqualified opinion on these statements shortly afterwards.

Appendices

Appendix A – Responsibilities of the Council

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

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

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

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

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

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

Appendix B – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the [type of body]. We have defined these recommendations as 'key recommendations'.	Yes	• Financial sustainability – page 7 • Improving economy, efficiency and effectiveness – page 8
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	• Financial sustainability – page 17 and 18 • Governance – page 24,25,26 and 27 • Improving economy, efficiency and effectiveness – page 34

Page 437

Grant Thornton

grantthornton.co.uk

DFP/24/41
Audit Committee
28th February 2024

Update on Devon's Special Educational Needs & Disabilities (SEND) Transformation and Deficit Management Plans

Report of the Director of Finance and Public Value and Director of Children & Young People's Futures

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 note the authority's ongoing work, through the SEND Transformation Programme, to improve the experience of children and young people with SEND and reach a financially sustainable High Needs Budget position.

2. Background / Introduction

1.1. Devon was inspected by Ofsted and the Care Quality Commission (CQC) in December 2018 and were required to produce a Written Statement of Action (WSoA) to address four areas of significant weakness. In May 2022, the local area was revisited by Ofsted/CQC and were found to have made no progress. The Department for Education (DfE) issued an improvement notice in September 2022 and the local area produced an Accelerated Progress Plan (APP).

1.2. Across the country many local authorities have faced financial challenges in meeting the demand for SEND within the High Needs Block of the Dedicated Schools Grant (DSG). In response, the Government introduced a statutory override in 2020 which separates local authorities' DSG deficits from their wider financial position.

1.3. In parallel, the DfE launched the Safety Valve Intervention programme in 2021, which targets support to the authorities with the highest DSG deficits and requires them to develop plans to reform their high needs systems and place them on a sustainable footing.

1.4. Devon has been experiencing significant pressures on its High Needs Block since 2019/20. The Dedicated Schools Grant (DSG) Deficit Reserve is expected to reach in excess of £160 million by the end of 2023/24. In December 2023, the authority submitted its DSG management action plans to DfE seeking a financial agreement under the Safety Valve programme. It is likely that confirmation of whether plans have been accepted will be communicated in March 2024.

1.5. This report provides an update on Devon's SEND Transformation Programme, which includes DSG management plans (commonly referred to as Safety Valve).

3. Update on SEND Transformation Programme

3.1. Improving the SEND system

3.2. Whilst there is a commitment to delivering the SEND improvements, as a response to Ofsted/CQC findings in 2018 and 2022, that alone is not going to drive the significant change required to improve the experiences and outcomes for children and young people with SEND in Devon. This is supported by feedback from parents, young people and professionals, and from analysis of partnership data and intelligence.

3.3. The Children and Families Act 2014 places a strong emphasis on schools, local authorities, health, care and any commissioned service providers working closely together to meet children and young people's needs, rather than as separate entities. To improve the support for children and young people with SEND in Devon, partnership working is crucial, but it is not yet effective.

3.4. In September 2023, the Council and its partners agreed a new approach to delivering improvements through the SEND Transformation Programme which takes a system wide approach to delivering positive change and is broadly set out under seven key strands (Annex A), bringing Ofsted/CQC improvement work and Safety Valve activity together in one place.

3.5. Partnership governance arrangements (Annex B) have been refreshed to ensure appropriate oversight of the SEND Transformation Programme.

Reaching a financially sustainable High Needs position

3.6. In Summer 2023, the DfE invited Devon to apply to tranche 4 of the Safety Valve Intervention Programme. The authority revisited its DSG management and sustainability plans with the aim of providing robust details about how to manage high needs costs, reach an in-year balance, and improve service provision.

3.7. A fundamental part of the work has been testing and refreshing our modelling assumptions based on detailed demographic analysis and forecasting, and our understanding of the current performance context. This has included analysis of options to reach sustainability as soon as possible, using trajectory management approaches.

3.8. The authority has redeployed some of its project management resources to help build the local area's SEND Transformation Programme and ensure oversight of the delivery of the DSG deficit management plans.

3.9. The intended impact of the DSG deficit management plans can be summarised as;

- An annual slowing down and flattening of the net increase in Education Health and Care Plans, based on meeting needs earlier, to bring us in line with statistical neighbours and England averages.

- A sustained reduction in the use of costly independent specialist provision, with a total reduction in the number of learners accessing this provision of 30% from 2024 to 2030, due to developing our own specialist provision.
- A proportional year on year increase in the number of appropriate learners accessing their education in mainstream schools/resource base provision.

4. Options/Alternatives

4.1. The impact of the current performance of the SEND system in Devon means that doing nothing will see a continued worsening financial position with significant financial sustainability challenges for the Local Authority. The SEND Transformation Programme will support the financial sustainability of the authority. Plans will need to be constantly reviewed and other initiatives may be brought forward through continued review of performance and risk management.

5. Consultations / Representations / Technical Data

5.1. The Local Area SEND Partnership, which includes NHS Devon, and the Devon Education (Schools) Forum (DEF) have been kept up to date with the ongoing challenges being faced by the High Needs Block budget and with the solutions being developed as part of our DSG management plans.

6. Strategic Plan

3.1. One of the key focuses of Devon County Council's Strategic Plan 2021-2025 is to create a 'Child Friendly Devon', where Devon is the best place to grow up. Specifically, one element of the Strategic Plan is to "ensure children and young people with special educational needs and disabilities achieve the best possible outcomes" (Devon County Council, 2021). The SEND Transformation Programme contributes to the realisation of this element of the strategic plan by ensuring that local area partnership arrangements lead to an improved lived experiences and improved outcomes for children and young people with SEND, and their families.

7. Financial Considerations

3.2. The key to achieving a positive outcome from the negotiations with the DfE and vital to the financial sustainability of the authority is developing a plan that results in services being delivered within the funding available and deliverable in a reasonable timeframe. If the DfE are assured that the plans the authority submitted in December 2023 are deliverable within the timescales proposed and will achieve the intended outcomes, then financial support towards the accumulated deficit is expected.

3.3. Each agreement reached between a local authority and the DfE has different dynamics and results in varying levels of support being made available. Discussions with the DfE have also indicated that any agreement reached in terms of participation in the Safety Valve programme will require a local contribution from the authority to fund part of the accumulated deficit. This formed the rationale behind the recommendation within the Month 4 Budget monitoring report in September

2023 where Cabinet agreed that a Safety Valve Support reserve was created and a contribution to it of £10 million is made in year representing the first element of the local contribution.

3.4. The full extent of the contribution required by the authority will not be known until negotiations are concluded and will be reported in due course but is expected to be significant and span many years.

3.5. 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.

8. Legal Considerations

3.6. There are no specific legal considerations related to this update. The Council must adhere to the relevant legislation such as the Children and Families Act 2014 and the Special Education Needs and Disability Regulations 2014.

3.7. The SEND Transformation Programme is set in the context of the current legislation, policy guidance, funding arrangements and national system challenges. Plans may be affected in future years by national policy changes, particularly the delivery of the national SEND Improvement Plan.

9. Environmental Impact Considerations (Including Climate Change, Sustainability and Socio-economic)

3.8. There are no specific environmental impact considerations related to this update.

10. Equality Considerations

3.9. Children and young people with SEND have the protected characteristic of disability under the Equality Act 2010 and duties to make reasonable adjustments and meet the Public Sector Equality Duty apply to this area of work. In addition, children with SEND will have intersecting characteristics such as gender, LGBTQ+, and ethnicity that may need to be taken into account.

11. Risk Management Considerations

3.10. A risk register is maintained for the SEND Transformation Programme which is regularly updated and monitored and feeds into the Corporate Risk Register.

12. Summary/Conclusion

1.6. The authority, and its partners, have revisited the approach to transforming SEND services and to reaching a financially sustainable High Needs Block position. DSG management plans have been submitted to the DfE as part of the Safety Valve Programme. If the DfE is assured that the plans proposed are deliverable within the timescales proposed, will result in intended outcomes and have the appropriate level of project management, governance and resource support then financial support towards the accumulated deficit is expected to be agreed.

Director of Finance & Public Value – Angie Sinclair
Director of Children & Young People's Future - Stuart Collins

Electoral Divisions: All
Cabinet Member for Finance – Councillor Phil Twiss
Cabinet Member for Special Educational Needs & Disabilities - Councillor Lois Samuel

Local Government Act 1972: List of background papers

Background Paper
Date
File Reference

Contact for enquiries:
Name: Kellie Knott
Telephone: 01392 382161
Address: County Hall, Topsham Road, Exeter, EX2 4QD

ANNEX A – SEND TRANSFORMATION PROGRAMME OVERVIEW

SEND Transformation Programme

1. Strategy
- Strategy development (Section A)
- Workforce development
- Organisational Design
- SEND Local Offer
- Co-production with families
- Data intelligence
- Continuous Improvement

2. Inclusion & Early Help (Education)
- Ordinarily Available Provision
- Early Help (Education) offer
- Special Schools Outreach
- EYFS transitions
- EBSA support pathway

3. Preparation for Adulthood
- Post 16: transitions
- Post 16: 3 day week offer
- Post 16: 3-5 year placements
- Further Education Capital

4. SEN Statutory processes
- EHCP timeliness (Section C)
- EHCP Quality (Section C)
- Communication with parents (Section B)

5. Sufficiency
- Sufficiency strategy
- Additional Special School places
- AP Commissioning framework
- Resource bases

6. Financial management & Placement Value
- Independent Sector Commissioning
- Financial Management systems

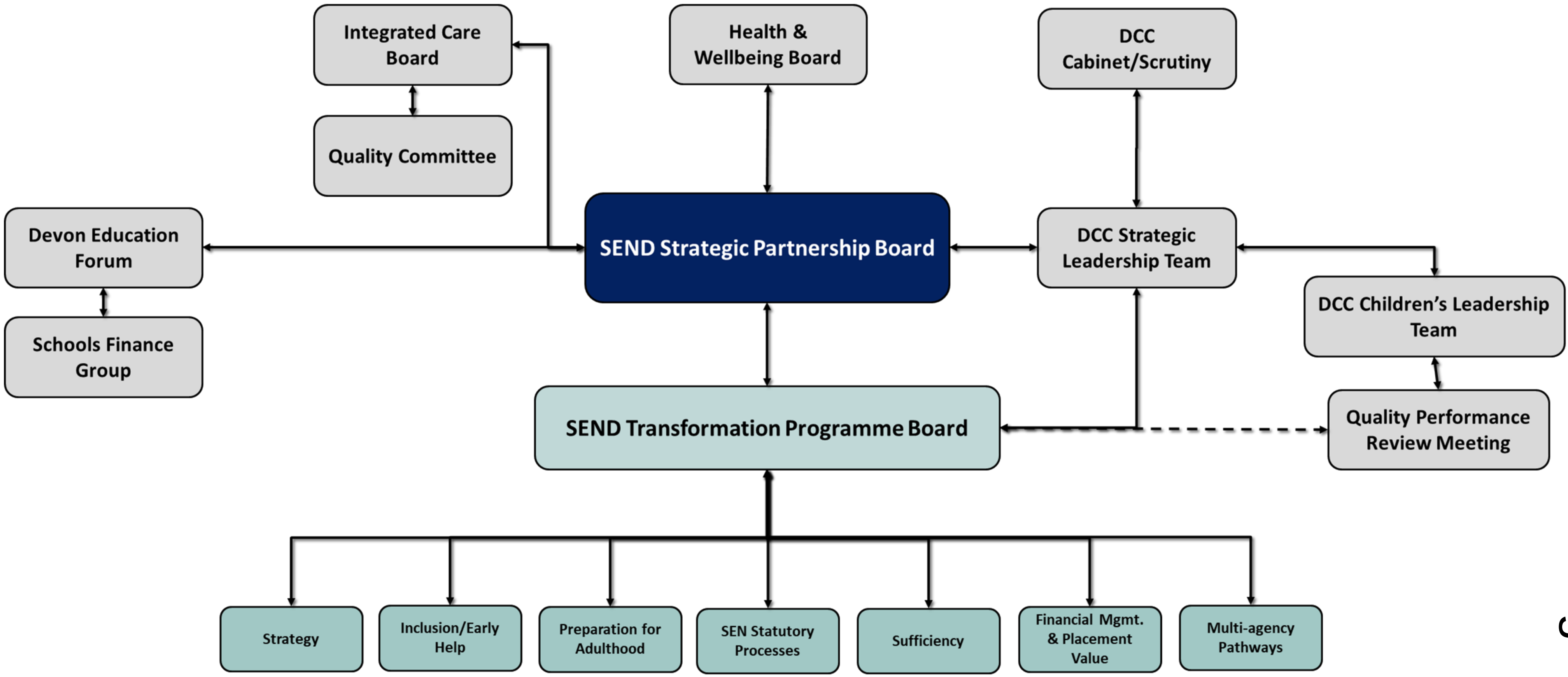
7. Multi-agency Pathways
- Neurodiversity gamechanger (Section D)
- Speech, language & communication needs
- Social, Emotional & Mental Health (SEMH)*
- Waiting List Recovery
- Clinical Prioritisation

* Including Locality SEMH Partnerships

Programme Communications and Engagement

Safety Valve activity | Post Ofsted/CQC improvement activity | Other identified work

ANNEX B – SEND PARTNERSHIP GOVERNANCE ARRANGMENTS



Board/Meeting	Purpose	Membership	Frequency
SEND Strategic Partnership Board	The multi-agency strategic board that holds the partnership accountable for delivery of the accelerated progress plan (Ofsted/CQC), the partnership delivery of the safety valve agreement and the readiness for the new Ofsted/CQC framework inspection. To include monitoring programme activity, KPIs, risks/issues and finances.	Independent Chair; Parent Carer Forum; Council Chief Executive; ICB Chief Executive; Cabinet Portfolio holder(s); DCC Director of Children's Services; DCC Director of Finance; School representatives; SEND Improvement Director; SEND Programme Manager	Monthly
SEND Transformation Programme Board	Responsible for overseeing programme delivery against milestones/plans, managing risks/issues, progress against KPIs. Reporting/escalating to SEND Strategic Partnership Board.	Chair; Parent Carer Forum; 7 x Project Leads; Schools representative; Education Head Accountant; SEND Improvement Director; SEND Programme Manager. Other partnership representatives as required.	Monthly
Projects	Project meetings that deliver the 7 identified transformation projects (slide 4) which support system-wide improvement, inc. the Accelerated Progress Plan and Safety Valve Agreement. Supported by project management capacity.	As required by each project.	As required.
SEND Quality Performance Review Meeting (QPRM)	To bring together DCC services who support children and young people with SEND to improve how they work together for a common purpose and tackle the issues arising from the project delivery work.	DCC Service Managers	6-weekly

DFP/24/21
DCC Audit Committee
28th February 2024

Report of the Director of Finance

INTERNAL AUDIT DRAFT PLAN 2024/25

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

1) Recommendations:

That the Committee reviews and considers:
i. the areas identified for inclusion in the internal audit plan for 2024/25.
ii. agree the adaptive plan for 2024/25.

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.

2) Background / Introduction

The attached report provides the draft Internal Audit Plan for the Council for 2024/25.

3) Main Body / Proposal

The attached report provides the draft Internal Audit Plan for the Council for 2024/25.

4) Options / Alternatives

Not Applicable

5) Consultations / Representations / Technical Data

This report has been agreed with DCC SLT.

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.

8) Legal Consideration:

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

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) Risk Management Considerations:

There are no specific Risk Management considerations associated with this report

12) Public Health Impact:

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

13) Summary/Conclusions/Reasons for Recommendations:

Reasons for reviewing the report and information within it are linked to the Committees Terms of Refence and those relevant to this meeting.

That the Committee reviews and considers:
  i. the areas identified for inclusion in the internal audit plan for 2024/25.
  ii. Agree the adaptive plan for 2024/25.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
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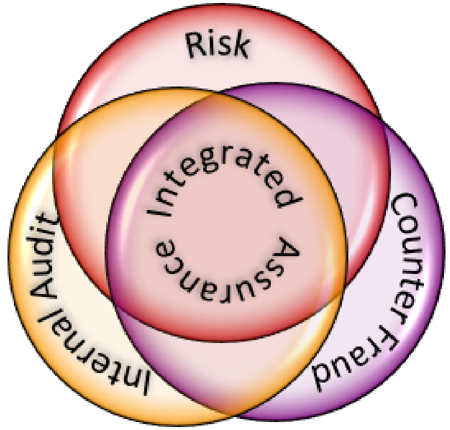
Tel No: (01392) 384238

Internal Audit

DRAFT Internal Audit & Counter Fraud Plan 2024/25

Devon County Council



February 2024

Not Protectively Marked

Support, Assurance and Innovation

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, Torridge and North Devon councils along with Devon and Somerset Fire and Rescue. 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@devonaudit.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.

devon audit partnership

Introduction

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a ‘Board’ and of ‘senior management’. For the purposes of the internal audit activity within the Council the role of the Board within the Standards is taken by the Council’s Audit Committee and senior management is the Council’s Leadership Group. The Audit Committee, under its Terms of Reference contained in the Council’s Constitution, is required to consider the Internal Audit Plan to provide assurance to support the governance framework (see Appendix 2).

This Council’s Internal Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council’s Internal Audit Service, which is provided by the Devon Audit Partnership (DAP) as represented in the audit framework at Appendix 1, and the scope of Internal Audit work. The PSIAS refer to the role of ‘Chief Audit Executive’. For the Council this role is fulfilled by the Head of Devon Audit Partnership.

The Chief Audit Executive (Head of DAP) is responsible for developing a risk-based plan which considers the organisation’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation as represented in Appendix 3.

The need for robust and effective controls to ensure that resources are used to the best effect and deliver the Council’s objectives has never been greater. Internal audit helps provide independent assurance that risks are known, understood and addressed, and that systems and procedures are sound, effective and free (as far as can be) from waste, error or fraud. Preparing a plan that addresses the emerging risks and developing areas for the council, whilst still covering the material and cross cutting systems is essential and ensures that internal audit resources are directed in the most appropriate way.

The audit plan represents the proposed internal audit activity for the year and an outline scope of coverage. At the start of each audit the scope will be discussed and agreed with management with the view to providing management, the Director of Finance (Section 151) and members with assurance on the control framework to manage the risks identified. The plan will remain flexible and any changes will be agreed formally with management on a regular basis and reported to Audit Committee.

Expectations of the Audit Committee for this annual plan

Audit Committee members are requested to consider: -

- the annual governance framework requirements;
- the basis of assessment of the audit work in the proposed plan;
- proposed areas of internal audit coverage in 2024/25.

In review of the above the Audit Committee are required to consider the proposed audit plan.

Tony Rose
Head of Devon Audit Partnership

Annual Flexible Audit 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*. Key benefits provide for:

- reduction in non-productive resource planning.
- improved opportunity to keep plan aligned to current risks within Service Areas and for the Council.
- 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.

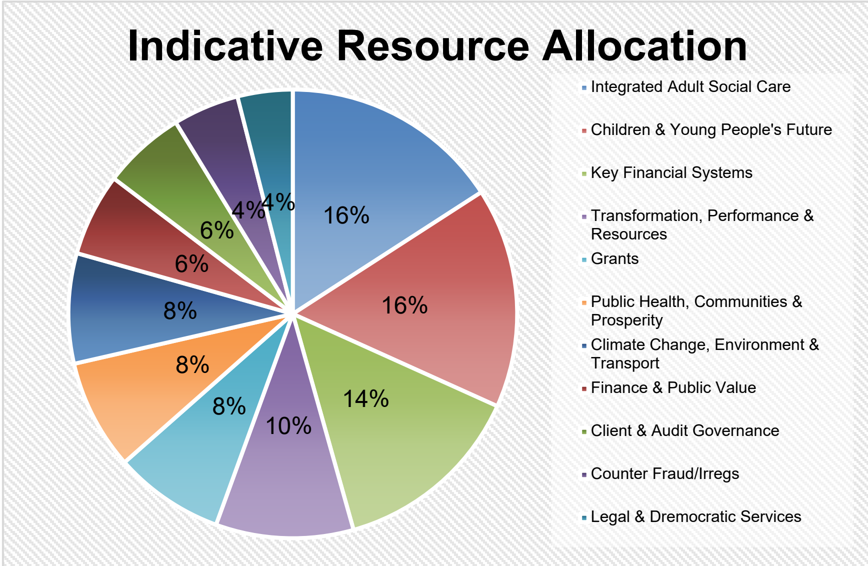
Our audit plans are always built around the risks identified through risk management, audit needs and perceptions of current issues and in discussion with client management.

The audit resource delivery envelope has been set to provide opportunity for greater depth of coverage and further extension of counter fraud work.

The indicative allocation of resource to meet this summary plan is set out in the pie chart to the right. This shows a good spread of coverage across service areas which we feel will provide good opportunity to provide assurance on the wider control framework from which to build our annual assurance opinion.

Since 2021/22 our approach was revised to scope, schedule and resource plans throughout the year with Service Leads in an agile way incorporating risk changes as necessary. This was effective and this approach will continue in 2024/25.

Our high-level summary audit plan identifies key corporate and service risks and areas identified as of greatest audit need. These risks are in the upper 'prioritised risk area' of the plan. Our expectation is that audit work is of most need in these areas. These are all underpinned by our core assurance work on the main financial systems and infrastructure systems and processes used to administer the most significant income and expenditure flows.



Our high-level summary audit plan identifies key corporate and service risks and areas identified as of greatest audit need. These risks are in the upper 'prioritised risk area' of the plan. Our expectation is that audit work is of most need in these areas. These are all underpinned by our core assurance work on the main financial systems and infrastructure systems and processes used to administer the most significant income and expenditure flows.

Additional to this we have provided an allocation of resource in each service area which is unscheduled and which we refer to as the 'adaptive plan'. This is where we expect the greatest amount of potential change to meet the Council's and Service needs as risks and priorities change through the year. Those highlighted are where Services currently see most priority.

Follow-up and implementation

We will follow-up prior year reviews which identified limited assurance and ensure that evidence is in place to support any high-risk issues.

Anti-fraud and Corruption

All our work will contain elements to ensure that sound and effective arrangements are in place to prevent and detect fraud and / or irregularity.

High Level Summary Audit Plan

Prioritised Risk Areas

Adult Care & Health

- Supported Living
- ASC Systems Replacement Project Engagement
- Budgets and Savings Delivery
- Transformation – Safeguarding
- Adult Social Care - Front End
- Bed Bureau
- CQC
- Transitions to Adulthood – Financial Implications (F/Up)
- Review Programme 18-64 (F/Up)

Unscheduled Resource, Options:

- Review of S75 Arrangements

Children's Services

- Paid by Results
- Children's Homes
- Placement Sufficiency Pathway
- SEND
- CS Use of iTrent (F/Up)
- Transitions to Adulthood – Financial Implications (F/Up)
- Payments to Independent Placements (F/Up)
- Financial Arrangements of EHCP Payments to Independent Schools (F/Up)
- Financial Intervention Panel (F/Up)

Unscheduled Resource, Options:

- Compliance with the Care Act Requirement

Climate Change, Environment & Transport

- Fees and Charges
- Highways Maintenance Contract – Replacement Delivery Model
- Transport Capital Programme
- Bus Service Improvement Plan
- Levi Charges
- Street Lighting Post Implementation Review
- Sustainable Drainage Systems (F/Up)

Unscheduled Resource, Options:

- Tree Management System – Ash Dieback
- Commuted Sums

Public Health, Communities & Prosperity

Prosperity:

- Mobility Aids
- Learn Devon

Public Health:

- PHSE
- Public Health Nursing

Communities:

- Gypsies & Travellers – Provision of Need

Unscheduled Resource, Options:

Public Health

- Seasonal Resilience

Adaptive Plan

Corporate/ Strategic Risks and Projects

- People Strategy
- Multi-Factor Authentication
- Lone Worker Devices
- Agency Workers
- Appraisals and 1-2-1 in iTrent
- People Hub
- Benefits Platform (Vivup)
- Directorate Plans
- Absences / Mental Health
- HR Dashboards
- Expenses (F/Up)
- Asset Disposal for VAT purposes
- Freedom of Information Requests
- Core Systems Replacement – Finest / CareFirst / Eclipse

Client and Audit Governance

- Audit Committee Reporting, Support and Training
- Audit Committee Self-Assessment (CIPFA)
- Corporate Governance
- Follow Up Reviews
- Audit Planning and Coordination
- Contingency

Counter Fraud

Core Assurance

Key Financial Systems (Material Systems) - Payroll, Creditors, Debtors, Income Collection, Bank Reconciliation, Treasury Management, Main Accounting System Inc interface systems & reconciliations.

Grants - Troubled Families, Grants Out - Governance and monitoring

ICT Back Up Recovery, IT Risk Management, Capacity and Availability (IT Infrastructure), Cloud and Data Centre Security, Cyber Security – Secure Configuration Laptops, Follow Ups

The elements proposed for audit for the coming year are those identified from the risk register and discussion with Senior Management.

Counter Fraud and Internal Audit Governance

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Devon Audit Partnership – Counter Fraud Team will investigate instances of potential fraud and irregularities referred to it by managers and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud.

In recognition of the guidance in the Fraud Strategy for Local Government "Fighting Fraud Locally" a Strategy for the 2020's Counter Fraud resources will be allocated to allow a focus on identifying and preventing fraud before it happens. Nationally these areas include Procurement, Payroll, Blue Badges, Direct Payments and Pensions. For 2023-24 we propose the following plan of work:

- Policy and Strategy – continued implementation and embedding;
- Integration with Audit Plan Work - reducing fraud risk in systems (key areas);
- Assurance on corporate risk and support for NFI and other data driven solutions;
- Investigation of potentially fraudulent activity;
- Training and awareness – across the Council.

Internal Audit Governance

An element of our work is classified as 'client governance' - this is work that ensures effective and efficient audit services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances, this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include: -

- Preparing the internal audit and counter fraud plans and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. External Audit (Grant Thornton),LGA, Ofsted);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during the year;
- On-going development within the Partnership to realise greater efficiencies in the future.

Partnership working with other auditors

We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of "re-inventing the wheel" in new areas of work which have been covered in other authorities.

We have developed sound working arrangements with the Council's external auditors and will look to further develop liaison meetings to improve assurance, maximising the benefits of close working. We have also developed an effective working relationship with Audit South West (NHS Internal Audit), Cornwall internal Audit and anticipate more opportunities to work collaboratively together as integration between the Council and Health develops.

Appendix 1 - Audit Framework

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015 amended 2021, which state:
"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance".

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

The Standards require that the Chief Audit Executive must "establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals". When completing these plans, the Chief Audit Executive should take account of the organisation's risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation's business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

Page 455

This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning and best practice, helping each authority develop further to ensure that risk remains suitably managed.

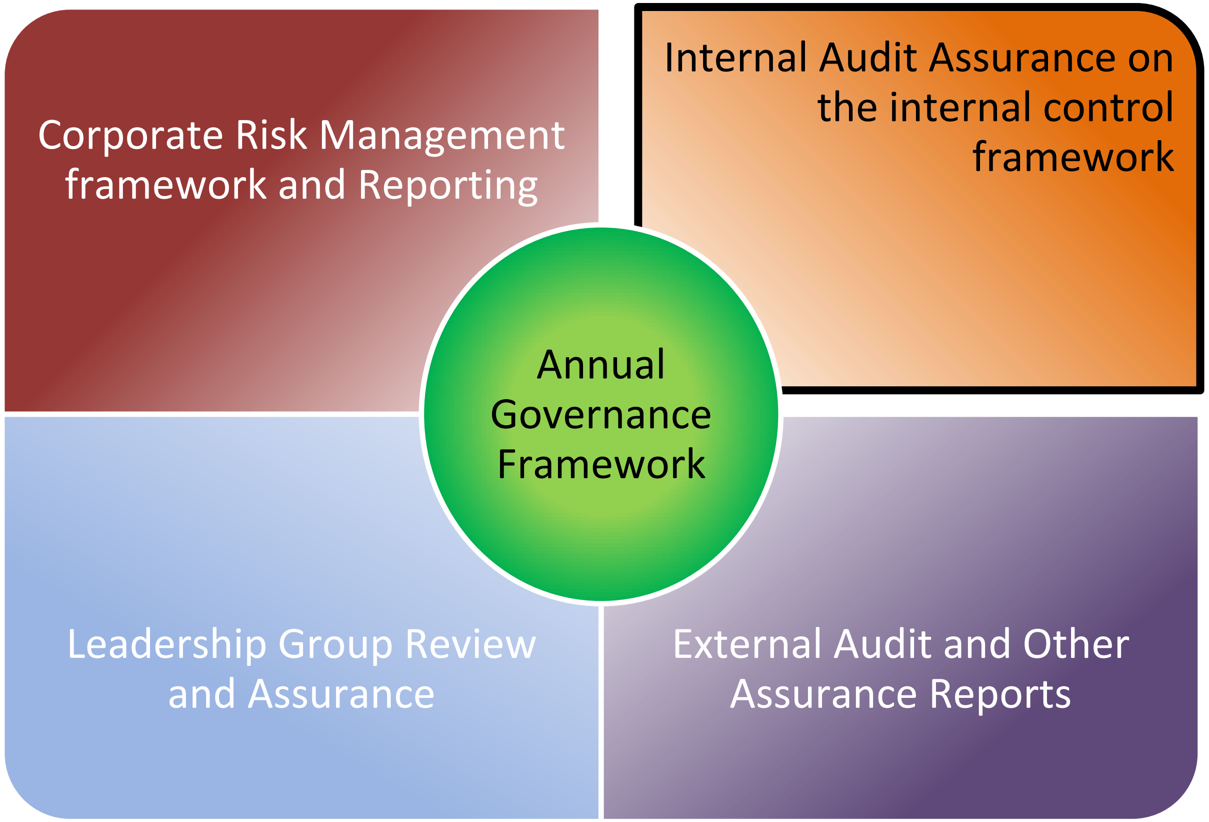
Appendix 2 - Annual Governance Framework Assurance

The Annual Governance Statement provides assurance that

- The Council's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should: -

- be prepared by senior management and signed by the Chief Executive and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that is followed to ensure that the governance arrangements remain effective. This will include comment upon:
  - The Council;
  - Audit Committee;
  - Risk Management;
  - Internal Audit;
  - Other reviews / assurance;
- Provide confirmation that the Council complies with CIPFA recently revised International Framework – Good Governance in the Public Sector. If not, a statement is required stating how other arrangements provide the same level of assurance.



The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

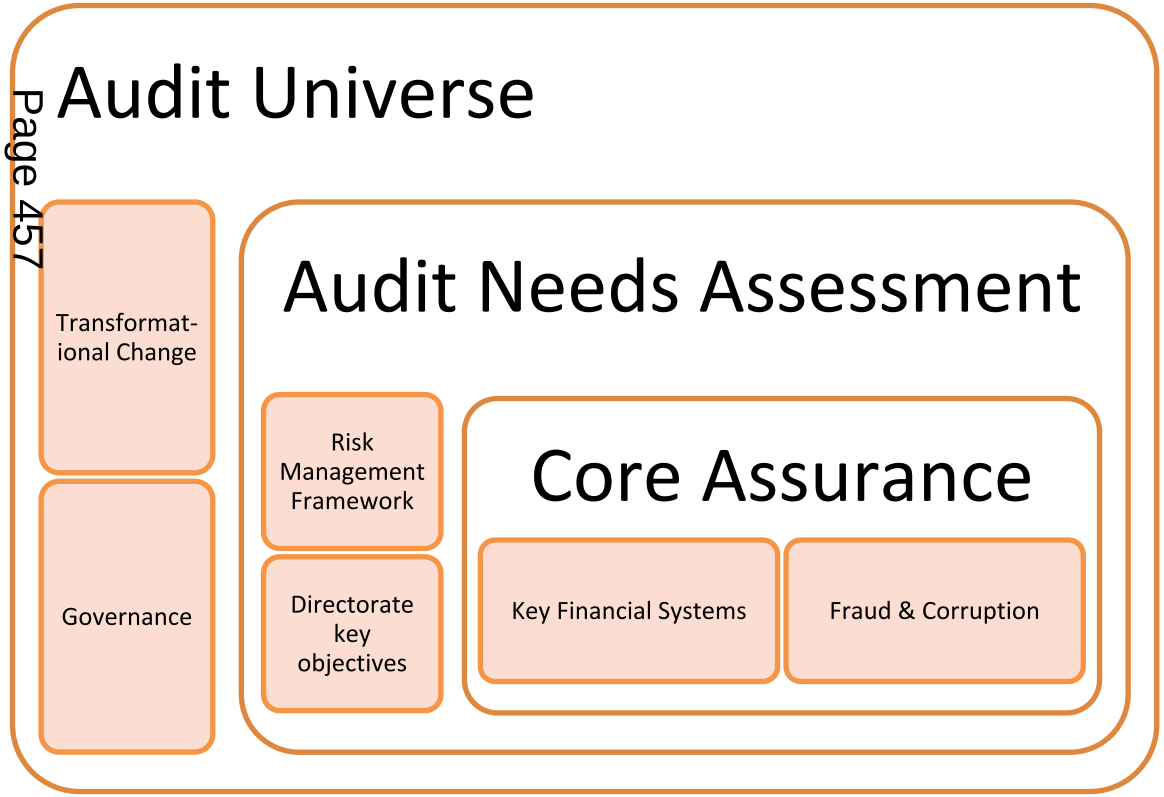
The Committee should satisfy themselves, from the assurances provided by Risk Management, Leadership Group and Internal Audit that the statement meets statutory requirements.

Appendix 3 - Audit Needs Assessment

We employ a risk-based priority audit planning tool to identify those areas where audit resources can be most usefully targeted.

This involves scoring a range of systems, services and functions across the whole Council, known as the 'Audit Universe' using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention.

The result is the Internal Audit Plan set out earlier in this report.

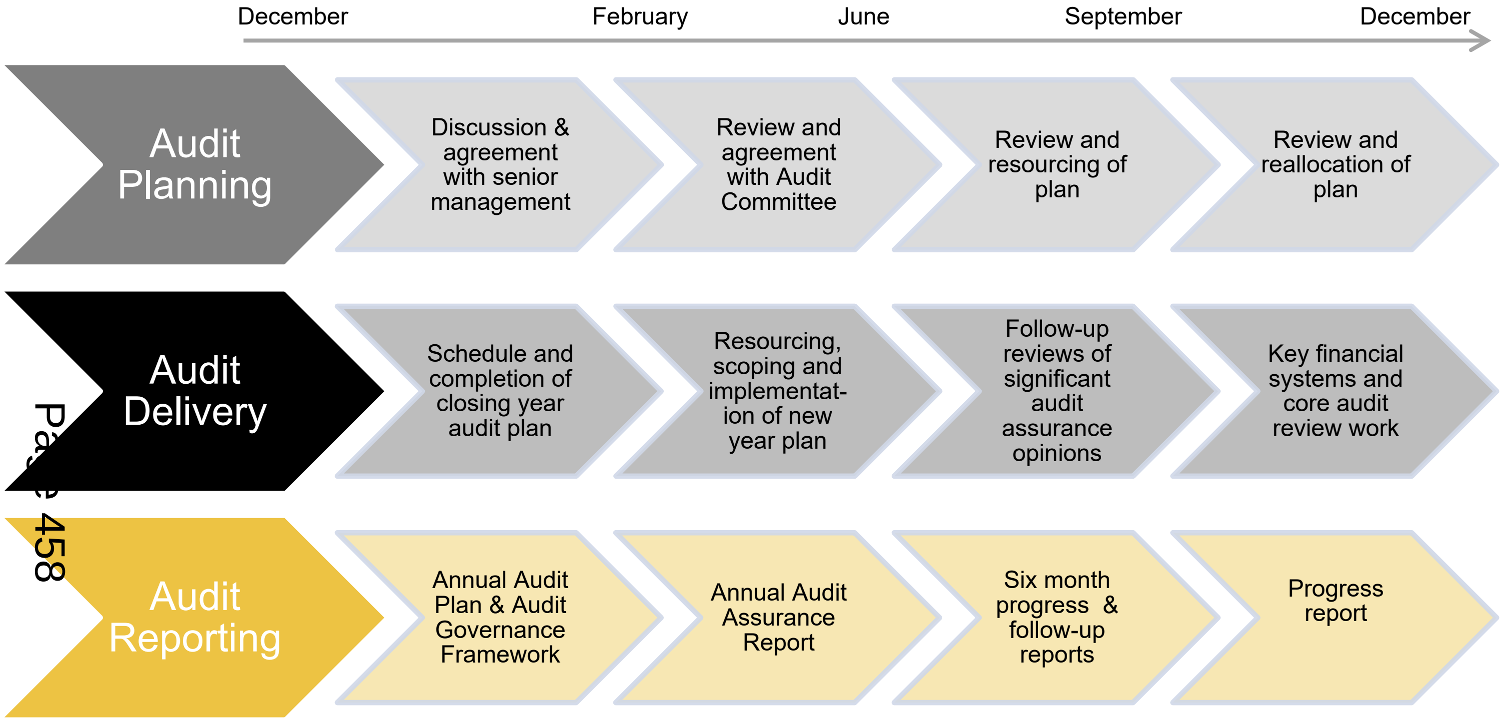


Page 457

The audit plan for the year has been created by:

- Consideration of risks identified in the Authority's strategic and operational risk registers
- Review and update of the audit universe
- Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives
- Taking into account results of previous internal audit reviews
- Taking into account Internal Audit's knowledge and experience of the risks facing the Council, including factors and systems that are key to successful achievement of the Council's delivery plans
- Requirements to provide a 'collaborative audit' approach with the external auditors

Appendix 4 - Our Audit Team and the Audit Delivery Cycle



Date	Activity
Dec / 2023 Jan 2024	Directorate planning meetings
Feb 2024	Internal Audit Plan presented to Audit Committee
Feb 2024	Internal Audit Governance Arrangements reviewed by Audit Committee
March 2024	Year-end field work completed
April 2024	Annual Performance reports written
June 2024	Annual Internal Audit Report presented to Audit Committee
Aug 2024	Follow - up work of previous year's audit work commences
Nov 2024	Follow-up and progress reports presented to Audit Committee
Nov 2024	Six-month progress reports presented to Audit Committee
Dec 2024	2022/23 Internal Audit Plan preparation commences

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DFP/24/20
DCC Audit Committee
28th February 2024

Report of the Director of Finance

INTERNAL AUDIT UPDATE REPORT FOR 2023/24

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

1) **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.

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.

2) Background / Introduction

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.

3) Main Body / Proposal

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.

4) Options / Alternatives

Not Applicable

5) Consultations / Representations / Technical Data

This report has been agreed with DCC SLT.

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.

8) Legal Consideration:

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

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) Risk Management Considerations:

There are no specific Risk Management considerations associated with this report

12) Public Health Impact:

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

13) Summary/Conclusions/Reasons for Recommendations:

Reasons for reviewing the report and information within it are linked to the Committees Terms of Refence and those relevant to this meeting.

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.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
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Devon County Council

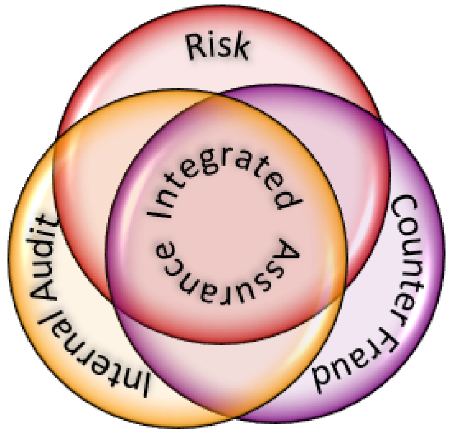
devon audit partnership

Internal Audit

Audit Committee
In-Year Monitoring Report 2023/2024

Page 465

Devon County Council



February 2024

Official

CUSTOMER SERVICE EXCELLENCE

CSE

Support, Assurance and Innovation

Contents

Devon Audit Partnership

The 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, along with Devon and Somerset Fire and rescue. 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

During 2023/24 there has been on-going positive engagement from staff across the Council and we are being alerted to issues where control weaknesses may exist which continues to inform our audit work. When compared to our work in previous years there are a higher number of limited assurances pieces coming through. The Senior Leadership Team (SLT) are engaging well with us to address issues identified and we continue to work with services to help priorities those actions that are most urgent and achievable.

During December 2023 we were requested by SLT to amend our audit plan for the final quarter (Jan - Mar 2024). This was to enable us to focus our resources on the processes in place for Special Educational Needs and Disabilities (SEND) within Children Services. There were known weaknesses within the process which was resulting in potential overpayments to establishments and incorrect forecasting for future spend. We have directed resource to this for a three month period whilst we continue to carry out other high risk audit work. The amendments to our audit plan are detailed on page 8.

To ensure progress is being made to mitigate risks on those pieces of audit work that achieved Limited Assurance during the first half of 2023/24, it is our intention to work with the relevant service area and carry out further testing during the last quarter of the year to progress and inform the end of year opinion.

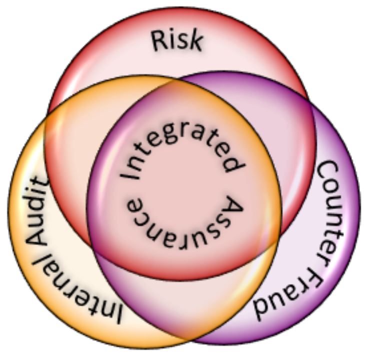
It is important to note that our assurance work reviews the process in place which often lends us to look back and then report at a point in time. Within our work we ensure that we also look forward at any planned changes whether they are in progress or at the development stage. It is clear from our work to date that the Council are taking forward key changes across a number of services which should have a positive impact on risk and controls.

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 Assurance 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 Assurance 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 January 2024.

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.



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;

Any audit findings provided, and 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 **<u>"Reasonable Assurance"</u>** on the adequacy and effectiveness of the internal control framework within the County Council.

The above assurance opinion is nine months into the year and is subject to change as we move through the remainder of 2023/24. There are a higher number of limited assurance reviews to date when compared to previous years and this could have an impact on the assurance opinion given at the end of the financial year. We are also of the opinion that if a particular service area has a significant number of limited reviews, we will provide a separate assurance opinion of limited overall to that service area.

Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks.

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 2023/24.

Performance Management
Performance is subject to monitoring at management level.

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. All 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.

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.

Appendix 2 - Assurance Map

DCC Summary Assurance Map

CUSTOMER SERVICE EXCELLENCE CSE devon audit partnership

Corporate Governance / Audit Committee

Senior Management

Risks / key objectives / Key services are taken from the Corporate Plan, Risk Register and audit universe with a focus on the higher risks and audit needs assessed feeding through into the audit plan.

Business Operation - 1st line — Identifying risks and improvement actions. Implementing controls. Reporting on progress. Management assurance

Financial, Corporate and Governance - 2nd line — Assurance oversight, management and financial policies, setting direction, risk management, ensuring compliance.

Independent Assurance - 3rd line — Independent challenge & audit. Reporting on assurance. Audit of assurance providers. Entity level assurance. *It is improtant to know when this assurance was produced.*

Regulators — Legal, Government other inspection and compliance review

External audit

Risk / Key Objectives / Key Service	Internal Control Measures				Management controls					2nd line							3rd line (RAG / Yr)							Regulators			External audit
	Core systems controls inc. IT system, parameters	Input processing and output controls	Fraud and error prevention	authorisation, supervison and segregation	Performance & Financial management reports	3rd Party resiliance?	Business continuity incl. Disaster recovery plans/capability	Strategies and business plans inc. Benchmarking	Spare -	Financial / Monitoring, reconciliation, reporting, Statutory Returns	Functional & Service compliance reviews	Quality control checks (H&S, Info Governance)	Security inc IT systems & physical	Governance structures and processes (inc. financial & other policy)	Corporate risk management/assurance	Spare -	External accreditation/Certification (ISO 27001)	External compliance testing - e.g. security, resilience, quality	3rd Party assurance letters	Consultant reviews	Strategic partners assurance reports inc. Peer review	spare	Internal audit assignments	Inspection - Ofsted, CQC, ICO, HSE	HMRC Tax and Revenue	Spare - Other ?	
Key Financial Systems																											
KFS - Income Collection 23/24	G	A	G							G			G	A									G				
KFS - Treasury Management 23/24	G	G	G	G	G		G			G			G										G				
KFS - Debtors 23/24	G	G	G	A	G	A				G			G	G	A								G				
KFS - Creditors	G	G	G	G	G								G	G									G				
KFS - Payroll	G	G	G	G	G	G	G			G			G		G		G	G					G				
KFS - Fixed Assets	G	G	G	G	G					G			G	G									G				
KFS - Main Accounting System	G	G	G	G	G					G	G		A	G									G				
Finance and Public Value																											
FP&V - Budget Setting Process	G	G	G	G		n/a				G	G	G	G	G	G								G				
FP&V - CHAPS Approval Process	G	G	G	G	n/a		G	n/a		n/a			G	G	n/a								G				
Children's and Young Peoples Futures																											
CYPF - Consultant Process for Schools		G		G	G	G		G		G		G	G	G	G					G			G				
CYPF - Adopt SW	G	G			G			G		G	G			G									G				
CYPF - Payments to Independent Placements	G	G	G	A	A	A		A		G		G		A	G								A				
CYPF & IASC - Transitions to Adulthood - Financial Impact		A	A	A	A			A		A				A									A				
CYPF - Financial Arrangements of EHCP Payments to Independent Schools	G	A		G	G	A				A	R	G			G								A				
CYPF - Financial Intervention Panetl - Schools	G	R	A	G	R	n/a	n/a	A		A	R	A	G	G	G								A				
Integrated Adults Social Care																											
IASC - Review Programme / Care Assessment 18-64	A	A	A	A	A	n/a				A	A	A	n/a	A	A								A				
Digitial Transformation and Business Support																											
D&TS - Information Technology Asset Management	A		G	A		G				R		A	A	A									A				
Public Health, Communities and Prosperity																											
PHC&P - Sexual Health - Governance & Risk Management					G	G		G		G	G	G		G	A								G				
PHC&P - Emergency Asylum Hotel Handbook						G			G						G								G				
Climate Change, Environment and Transport																											
CCET - Exeter ERF Annual Reconcilation 22/23					A	G	G			G		G			G					G ####			G				
CCET - Sustainable Drainage Systems (SuDS)					G	A		A		A	A	A	A	A	A								A				
CCET - Planning Team Processes	G	G		G	G	G						G	A		G								G				
People and Culture																											
HR - Off Payroll Working	G	G		G	A	G	G			A	G		G		G								G				
HR - Children's Services Use of iTrent	G	A	A	G	A			G		A	A	G		A									A				
HR - Expenses	G	A	A	G	A					A	A		G										A				

Page 469

High Level Summary Audit Plan – 2023-24

Prioritised Risk Areas

Adult Care & Health

- Supported Living Tender
- Impact Assessments
- 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 Safeguards
- Commissioning – Best Value

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 Schools (FIPS)
- Direct Payments – Virtual Wallet
- MASH IT System (F/Up)
- Direct Payments (F-Up)

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
- Transport – Impact of Covid-19
- Sustainable Urban Drainage System
- Section 106 Agreements
- Bio Diversity Net Gain
- Commuted Sums

Public Health, Communities & Prosperity

Prosperity:

- Mobility Aids
- Learn Devon
- External Funding with Community Renewal Funds

Public Health:

- Budget Pressures
- Business Continuity
- Fund led Audit

Communities:

- Asylum Seekers
- Domestic Abuse
- Modern Slavery
- Incoming Serious Violence

Adaptive Plan

Adult Care & Health

Unscheduled Resource, Options:

- OT & SW Recruitment
- Community Services

Children's Services

Unscheduled Resource, Options:

- Children's Homes
- Compliance with the Care Act Requirement

Climate Change, Environment & Transport

Unscheduled Resource, Options:

- Tree Management System – Ash Dieback
- Fees & Charges

Public Health, Communities & Prosperity

Unscheduled Resource, Options:

- Public Health – Impact of Covid
- Prosperity - Animal Disease Emergency/Contingency Plans

Corporate/ Strategic Risks and Projects

- Budget Targets – Delivery of Savings/Accountability
- SEND – Savings Review
- People Strategy
- Spend Analysis – Eight Point Plan
- Financial Resilience of Key Suppliers – Business Continuity
- Best Value
- Governance & Commissioning of Corporate Contracts
- Single Sign-On
- Lone Worker Absence Devices
- Sickness/Absence Management
- Climate Change
- Core Systems Replacement -Finest – CareFirst

Client and Audit Governance

- Audit Committee
- Corporate Governance
- Follow Up Reviews
- Audit Planning and Coordination
- Contingency

Counter Fraud

Core Assurance

Key Financial Systems (Material Systems) - Payroll, Creditors, Debtors, Income Collection, Bank Reconciliation, Treasury Management, Main Accounting System Inc interface systems & reconciliations.

Grants - Troubled Families, Grants Out -Governance and monitoring

ICT – Disaster Recovery, Firewalls, Access Controls, IT Asset Management, Capacity & Availability, ICT Cyber Security – Vulnerability Management

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 – **C/fwd to 24/25 to work on SEND**
- Financial Resilience of Key Suppliers – Business Continuity
- Governance & Commissioning of Corporate Contracts
- Budget Setting Processes
- Barclaycard / Procurement Card Spend
- Procurement Card Spend – Schools
- Business Spend / Car Hire Expenses
- Financial Regulations
- Attraction, Recruitment & Retention of Registered Professionals
- 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**
- Expenses
- Climate Change
- Core Systems Replacement – Finest - CareFirst

Adult Care and Health

- Supporting Living - **C/fwd to 24/25 to work on SEND**
- Impact Assessment - **C/fwd to 24/25 to work on SEND**
- Services Consultation Process (Service Closure)
- ACH System Replacement Project
- CQC – Assurance of Adults Social Care
- ICB Savings Plan
- Review of S75 Arrangements **– moved to 24/25 due to an external review currently underway**
- Direct Payments – System Development
- Liberty Protection Standard – **on hold until after the next General Election**
- CHC F/Up
- Community Services
- Effective replacement care offer to avoid carer breakdown – **no longer a priority**
- Transitions – Project Board
- Review Programme 18-64
- Direct Payments – (F/Up)

Children's Services

- Children's Services Social Care – Ofsted Monitoring – **removed to work on SEND**
- Financial Arrangements of EHCP Payments to Independent Schools
- Payments to Independent Placements – Social Care
- Paid by Results - **C/fwd to 24/25 to work on SEND**
- 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 - **C/fwd to 24/25 to work on SEND**
- CS Direct Payments Spend Analysis – (F/Up)

Public Health, Community & Prosperity

- Mobility Aids– **C/fwd to 24/25 to work on SEND**
- Learn Devon– **removed to work on SEND**
- External Funding with Community Renewal Funds – **removed to work on SEND**
- Budget Pressures **– this is being picked up as part of the Budget Targets – Delivery of Savings review**
- Business Continuity – **no longer a priority**
- Fund Led Audit **– no longer a priority**
- Sexual Health
- PHSE – **C/fwd to 24/25 to work on SEND**
- Asylum Seekers (Migration & Resettlement) – **no longer a priority look to review in 24/25**
- Domestic Abuse
- Modern Slavery
- Incoming Serious Violence Duties – **on-going liaison with external bodies, consider for 25/26 plan.**
- 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 – **No longer a priority**
- Commuted Sums - **C/fwd to 24/25 to work on SEND**
- Tree Management System – Ash Dieback **C/fwd to 24/25 to work on SEND**
- Fees and Charges – **C/fwd to 24/25 to work on SEND**
- Planning Team Processes
- SEND Transport – (F/Up)

Digital Transformation & Business Support

- Disaster Recovery – **C/fwd to 24/25 to work on SEND**
- Firewalls
- Access Controls
- IT Asset Management
- Capacity and Availability **– moved to 24/25 plan to allow capacity to undertake the limited assurance follow-ups**
- ICT Cyber Security – Vulnerability Management Availability **– moved to 24/25 plan to allow capacity to undertake the limited assurance follow-ups**
- 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:

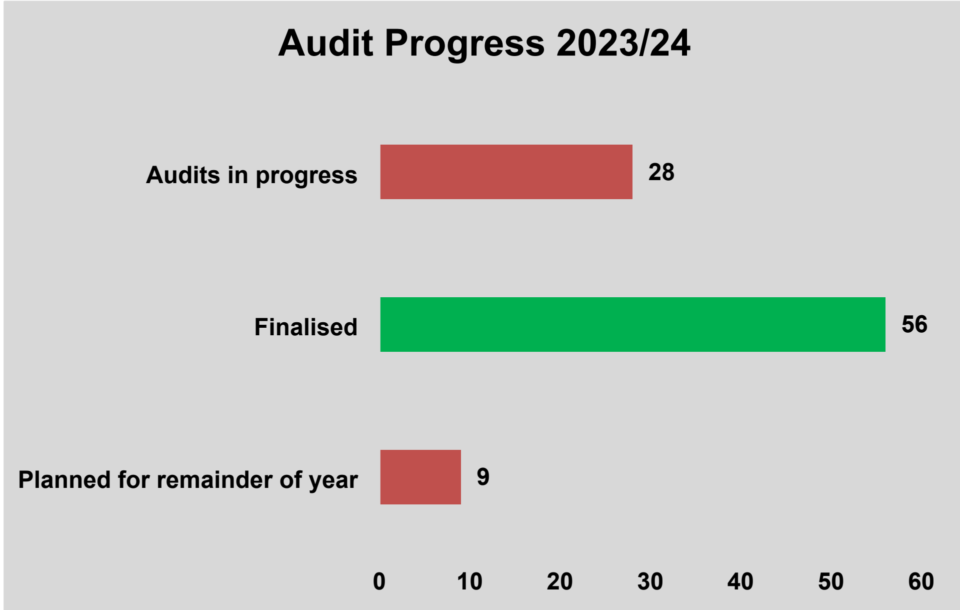
- Reduction in non-productive resource planning.
- Improved opportunity to keep plan aligned to current risks within Service Areas and as a whole for the Authority.
- More effective and timely pre-audit engagement with Service Leads.
- Greater and more regular discussion with client leads – supporting 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 of 19th January 2024, to have 56 pieces of work finalised for the 23/24 financial year and a further 28 audits in progress. We plan (subject to changes in risk and priorities) to complete a further 9 audits before the end of the financial year along with our current work on SEND in Children's Services (as mentioned on page 3.



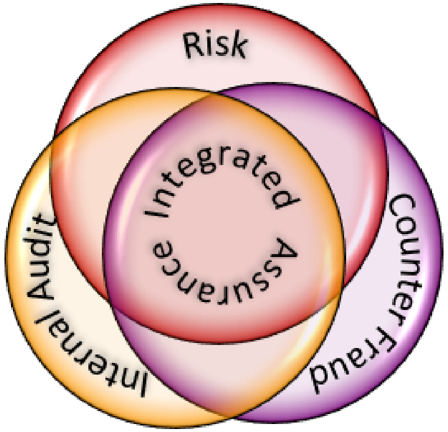
Value Added

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.

Investigations and Irregularities

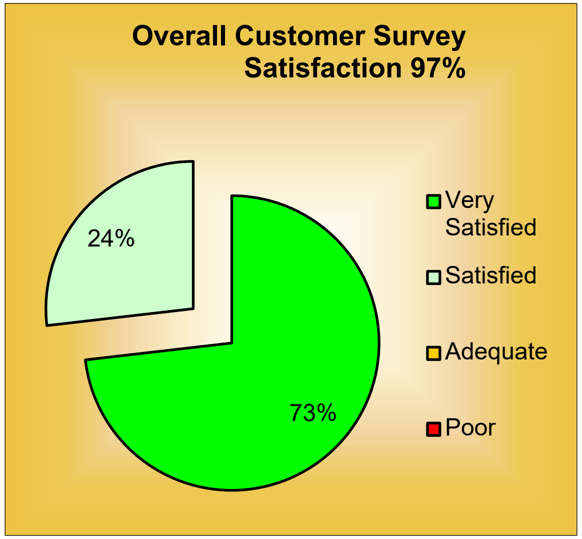
We work collaboratively with the Counter Fraud team and further detail of the DAP Counter Fraud activity can be found in the Counter Fraud Report provided separately by DAP.



Page 473

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 20. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

Quality Assessment - Through external assessment in 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 and 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 November 2023 to January 2024 (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 November	
Direct Payments 2021/22 Follow Up Limited Assurance Status: **Final**	Since our last review in March 2023, work has progressed in respect of the introduction of the auto-recovery process for accounts with surplus balances, and the first reclaim took place at the end of November 2023. There has also been an increase to the number of annual care assessment and financial assessment reviews taking place, however, this still falls short of all reviews being processed within the required 12-month period. Whilst Children's and Young People's Future (CYPF) have now procured the new Virtual Wallet system for Direct Payments, which is in the process of being implemented, Integrated Adult Social Care (IASC) have yet to make a decision on whether to move away from the current EML pre-paid card system. Management have advised that the Virtual Wallet does remain an option for IASC, but this is dependent on successful implementation by CYP.
Other work on-going: • Service Consultation • CHC Follow Up review from 21/22 • Governance and Assurance Board for the Care First system replacement, Transitions, Community Services, Care Quality Commission and Direct Payments Development - to provide advice on risk and controls through attendance at meetings.	

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 November	
Sexual Health Reasonable Assurance Status: **Final**	There are generally adequate governance arrangements in place to ensure DCC are meeting the statutory requirements with regards to the provision of sexual health services to its residents. In addition, management are pro-active in identifying areas of potential improvement, for example, a new Power BI dashboard is currently being developed to improve the reporting of data taken from multiple sources and to aid the Sexual Health Needs Assessment. Contract and performance monitoring in respect of Northern Devon Healthcare Trust (as the main provider of integrated sexual and reproduction health services) is adequate and reported to senior management each quarter. However, there is

	no current contract or service specifications for University Hospital Plymouth who took over two separate contracts from Plymouth Sexual Health Service (GUM) and Livewell (Deep Implant Removal and Contraception). As such, payments are continuing as per the legacy arrangements from approximately four years ago, albeit with no apparent issue. This has been recognised by management on the service risk register, but the risk has not been fed into the DCC's Corporate Risk Management System.

Other work on-going:

- Modern Slavery
- Domestic Abuse

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 November	
Financial Intervention Panel for Schools Limited Assurance Status: **Final issued 11/01/24** Draft issued 24/11/23	The Financial Intervention Panel for Schools (FIPS) meet fortnightly to discuss and consider or meet with schools across Devon that have applied for assistance. Schools receive a proportion of the Dedicated Schools Grant, from which a top slice is apportioned to the FIPS budget code which currently has a balance of c.£1m. The panel consists of six or more officers, chaired by the Head of Education and Learning, from Finance, HR and Schools Improvement, plus others with suitable expertise as required. Schools are required to have a three-year plan in place with a balanced budget. Financial planning and audit tools to aid with this process are provided by the Department for Education centrally, and guidance is available from DCC if a school requires it. Applications for assistance are quality assessed by a finance officer and where these have omissions or errors, these are returned to schools for correction. Records of this process in previous years have sometimes been missing and no system for routine follow-up was evident. Panel meetings are held regularly, generally administered well, with folders normally including agendas, minutes and supporting documents. The information provided by schools currently needs to be transposed into other worksheets for analysis and monitoring purposes. This is not very efficient and could benefit from being imported in directly from other systems and work is underway to make this possible. The process of monitoring schools with licensed deficits is insufficient. There are instances where regular monitoring has not happened consistently in previous years, and this may have led to intervention not happening in a timely manner. Budget deficits are licensed on a year-by-year basis to a maximum of three years after which schools have had some deficits written off. We consider that this may lead to some schools believing that change/action was not urgent and without consequence. We are told that this process is being reviewed at present with a view to 'debts' becoming

‘unlicensed deficits’ in the future. This would support alternatives to repay deficits, perhaps on a more structured basis, and the solutions used by some other authorities are being examined.

Of further concern is the fact that we are told that pupil numbers are dropping across the county after a ‘wave’ of higher students that are now going through secondary schools. A drop in numbers entering education across Devon primary schools is likely to have a swift impact on budgets particularly in smaller schools where deficits are already occurring. This will have a knock-on effect on the demand for FIPS intervention.

The service has recognised some of the shortfalls referred to above and we have seen evidence that work is underway to amend processes, frequency of monitoring etc. We consider that the effect of these revised procedures should be assessed again, once fully implemented.

Overall Management Response

A new Financial Reporting Suite monitoring spreadsheet has been developed consolidating monitoring submissions from each school and calculates the frequency of the recovery plan. In addition, it imports school budget monitoring reports whereby these can be presented individually or as a consolidated view of all budget positions allowing for a detailed review of budgets. A school’s recovery plan has recently been developed and is being rolled out during January 2024 to be available for schools to download.

Other work in progress:

- Direct Payment Follow-Up review from 22/23
- Direct Payments Spend Analysis Follow-Up review from 22/23
- MASH IT Follow-Up review from 22/23
- Direct Payments – New System (Virtual Wallet) - To provide advice on risk and controls through attendance at meetings.

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 November	
Fixed Assets Substantial Assurance Status: **Final**	Previous audit reviews have reported the systems and processes to be of a high standard and there have been no significant changes in the system, nor our findings to warrant a change to that opinion. The Fixed Asset Register is updated on an annual basis at year end, as part of the closedown process and the preparation of the annual Statement of Accounts. Based on our testing we consider that controls in relation to accounting for fixed assets are robust, with adequate procedures in place to appropriately record fixed assets, including additions, disposals and the accurate application of depreciation costs in line with the Councils Financial Regulations. Assets are managed in line with the Capital Programme which is included within the annual accounts. Members are kept informed of the latest capital position and have delegated powers to approve purchases and disposals.

Key Financial Systems	
Risk Area / Audit Entity	**Audit Report** **Residual Risk / Audit Comment**
Payroll Substantial Assurance Status: **Final** Page 478	The control framework for the payroll function remains sound and we consider the key risks associated with the service to be managed effectively and operated by skilled staff. User access onto the payroll system is adequately controlled using unique usernames, passwords and SSO (Single Sign-On) for corporate users. There has however, been a continued delay to MFA (Multi Factor Authentication) which is now expected to be implemented in January 2024, alongside this amended controls regarding password requirements will also be implemented, in line with NCSC's recommended standards. The process for starters and leavers is adequate, however there is an ongoing risk, accepted by management, that new starter forms, which are accessed externally for DCC schools, could be submitted inappropriately, however this risk is low. The contract and arrangements in place with the system provider MHR include appropriate measures regarding business continuity and data security. HR's own business continuity plan is reviewed and updated twice a year, however dry runs to test their effectiveness, are not being undertaken. Observations from previous audits have been considered and some management actions have been applied to mitigate or accept the risks. However, there remains three previously agreed management actions which had not been fully actioned at the time of our audit, these relate to KPI's (Key Performance Indicators), BCP (Business Continuity Plan) dry runs and the implementation of MFA.
Main Accounting System Reasonable Assurance Status: **Final**	The control framework for the main accounting system (FINEST) remains generally sound and effectively operated by skilled staff. Likewise, there are adequate processes in place regarding bank reconciliations which are routinely undertaken by experienced Finance Officers. Progress has been made since the last audit with regards to processes surrounding user access to the Council's online bank account. However, additional checks for leavers/staff changing roles would further strengthen the current controls in this area. Whilst three of the previously agreed management actions have progressed, there remain some areas where additional measures would enhance the existing control framework and observations have been made accordingly, for consideration and response by management.

Digital Transformation and Business Support

Risk Area / Audit Entity	Audit Report Residual Risk / Audit Comment
No audits have been completed and finalised since November	
Other work in-progress:	

- IT Access Controls
- Firewalls
- Project Management Follow-Up from 22/23
- Change Management Follow-Up from 22/23
- Cyber Security (Governance Arrangements) Follow-Up from 22/23
- Cyber Security Follow-Up from 21/22
- Data Storage Follow-Up from 21/22
- Shadow IT Follow-Up from 22/23
- Patch Management Follow-Up from 22/23
- DCC Data Protection Follow-Up from 22/23

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 November	
Sustainable Drainage Systems (SuDS) Limited Assurance Status: **Final issued 14/12/23** Draft issued 28/09/23	The obligations DCC will face as the SuDS Approval Body (SAB), will come with significant financial and resource implications. Management within the Environment Team are aware of the potential impact and the pressure on resources and finances which will be required under the new responsibilities as the SAB and have reported this to the Senior Management and the Head Accountant within Climate Change, Environment and Transport (CCET) to ensure this forms part of the Council's Medium Term Financial Strategy. There are several key areas of impact expected from the government requirements under Schedule 3 of the Flood and Water Management Act 2010. These have been detailed as observations/implications and include: • Financial resources/costs. • Staff resources. • System resources.

	• Alignment with other local authorities, agencies and organisations. • Obligation to meet statutory standards, requirements and timescales. Our overall audit opinion is based on the current position held by the Council corporately, with regards to its preparedness for Implementation of Schedule 3, and not a reflection of the Environment Team or CCET directorate specifically. Whilst we have given a level of 'Limited Assurance', the difficulties faced with regards to certain areas of planning are understandable as many factors have yet to be decided by government including set up costs, administration of SuDS applications, costings surrounding maintenance fees and appropriate legislation. However, it would be beneficial to establish a structured, project-based approach from the outset with the key risks identified and consideration of the controls which could help mitigate the risks. **Overall Management Response** The latest information from DEFRA suggests that the planned consultation on Schedule 3 is imminent. There is ongoing expectation of implementation from late 2024/early 2025. The impact on future staffing, systems and finance resource will be put together in a plan/business case to be submitted to Senior Leadership Team as soon as possible when the consultation is issued. Subject to SLT approval, a business case for an additional officer to lead the planning will be put forward. Costs for the initial additional resources has been included within the Medium-Term Financial Plan from 2024/25.
Planning Team Processes Reasonable Assurance Status: **Final**	This audit focused on how efficient the Council are at responding to both local plan and planning application requests from District Councils in the form of a corporate response. The planning team are very experienced and provide comprehensive corporate responses in a timely manner. However, we have identified some areas of improvement to the current processes such as introducing a threshold to determine which planning applications require a corporate response, record storage and ensuring regular strategic meetings with all District Councils are occurring. There are a lack of reports available to management providing information on what stage a planning application is at. This includes how planning applications are progressing and deadlines of when a corporate response is due. The service has an oversight on how local plans are progressing by maintaining a manual overview spreadsheet. There is no specific portfolio holder for planning which results in decisions being made without political oversight. However, if the Council were to assign a planning portfolio holder, they would need to ensure this does not affect corporate response deadlines being issued.

Other work in progress:

- Section 106 Agreements
- SEND Transport Follow-Up from 22/23
- Response to Extreme Weather Events
- Response to Highways Safety Related Issues

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 November	
Budget Setting Processes Substantial Assurance Status: **Final**	Based on our review we consider the Council's annual budget setting process to be comprehensive and robust. We have found there to be appropriate controls in place to ensure an accurate, realistic, complete and balanced budget with accompanying Medium Term Financial Plan. Identifying savings is incorporated into the budget setting process. For the 2024/25 budget, this includes a Council wide review of external spend and staffing with input and oversight of the Senior Leadership Team (SLT). At the time of this report (January 2024) proposed budget savings of approximately £52m for the 2024/25 have been identified. Budget risks are considered throughout the budget setting process and are managed on an ongoing basis via the corporate risk management framework. Prior to being formally approved by the Full Council, the budget is subject to review by Section 151 Officer/Director of Finance and Public Value and the relevant Scrutiny Committees. The budget is also subject to consultation with, for example, the Business Community and the Voluntary and Community sector, providing appropriate mechanisms for scrutiny and challenge. The finance staff preparing the budget are highly qualified and experienced professionals operating within an established budget setting framework.

Page 481

Other work in progress:

- FINEST System Replacement - To provide advice on risk and controls through attendance at meetings
- Business Spend / Car Hire Spend
- Procurement Card Spend Analysis - Schools
- Budget Targets – Delivery of Savings
- Best Value
- Governance of Corporate Contracts

People & Culture		
Risk Area / Audit Entity	**Audit Report**	
	Residual Risk / Audit Comment	
No audits have been completed and finalised since November		
Other work in-progress:		

- Job Evaluation
- Expenses
- Attraction, Recruitment and Retention of Registered Professionals

Grant Claims Certified Since September		
Grant Name	**Audit Report**	
	Grant Certification	**Audit Comment – if applicable**
S31 – A386 Newton Abbot	Certified	Grant Certification without amendment
S31 – A361 North Devon Link		
Supported Families Programme October	Certified	Sustained Progress. Potential claim 147; tested 15; failed 0; claim made 147 families = £117,600
Supported Families Programme November	Certified	Sustained Progress. Potential claim 197; tested 15; failed 0; claim made 197 families = £157,60
Supported Families Programme December	Certified	Sustained Progress. Potential claim 119; tested 20; failed 0; claim made 119 families = £95,200
Supported Families Programme January	Certified	Sustained Progress. Potential claim 92 ; tested 9; failed 0; claim made 92 families = £73,600

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.

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.

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

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

devon audit partnership

Service Provision

The Internal Audit (IA) Service for Devon County Council is delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement constituted under section 20 of the Local Government Act 2000. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

Strategy

Internal Audit Strategy sets out how the service will be provided, and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the audit function.

Professional Standards

We work to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards.

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

Our Internal Audit Manual provides the method of work and Internal Audit works to and with the policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

Regulatory Role

There are two principal pieces of legislation that impact upon internal audit in local authorities:

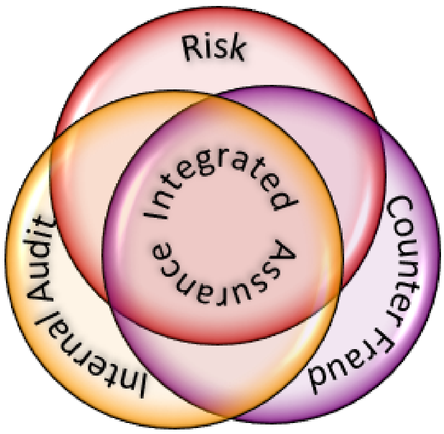
Section 5 of the Accounts and Audit Regulations (England) Regulations 2015 which states that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance….."

Section 151 of the Local Government Act 1972, which requires every local authority to make arrangements for the proper administration of its financial affairs

Appendix 4 - **Audit, Risk & Counter Fraud Integration**
Support, Assurance and Innovation

devon**audit**partnership

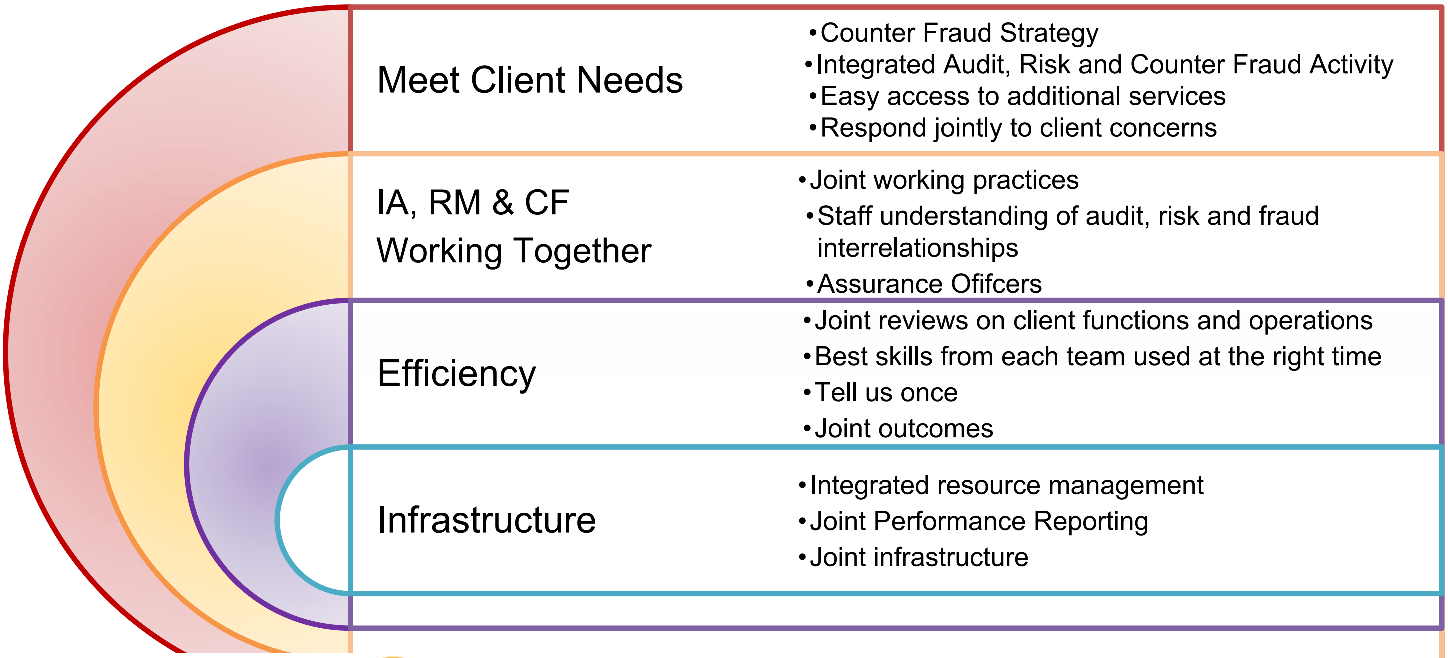
Our Vision
To be the leading provider of assurances services covering internal audit, counter fraud and risk management to public and not-for-profit organisations in the South West and beyond.



Operational delivery

- **Assurance Audit** Plans based on the best and most up to date risk information
- Agile **Internal Audit** Plan
- Live **risk management** reporting and support across the Council
- Deliver a best in class **risk management framework**
- **Counter Fraud** Team co-ordinate / undertake irregularities work coming through the **audit** plan
- Potential irregularities triaged to **fraud or audit** for review
- **Proactive fraud** work e.g. NFI, developing a 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 where possible

Our Goals



devon**audit**partnership Counter Fraud Services

devon**audit**partnership Risk Management

devon**audit**partnership Internal Audit

DFP/24/22
DCC Audit Committee
28th February 2024

Report of the Director of Finance

Risk Management Update February 2024

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

---

1) 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.

As requested by Members, information relating to risk mitigation is included within the report.

Appendix A – Extract of the current Very High risks the council faces (based on Current Risk Score)
Appendix B – Risk Scoring Guide
Appendix C – Power BI Extract
Appendix D – Audit, Risk & Counter Fraud Integration

2) Background / Introduction

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.

3) Main Body / Proposal

As above.

4) Options / Alternatives

Not Applicable

5) Consultations / Representations / Technical Data

This report has been agreed with DCC SLT.

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.

8) Legal Consideration:

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

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) Risk Management Considerations:

The attached report sets out the risk position of the Council.

12) Public Health Impact:

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

13) Summary/Conclusions/Reasons for Recommendations:

Reasons for reviewing the report and information within it are linked to the Committees Terms of Refence and those relevant to this meeting.

i. review the most recent risk position for 2023/24 including notable changes, and via the Power BI Dashboard.
iii. review the updates to the risk management process as supported by Devon Audit Partnership.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
Name: Brad Hutton
Tel No: (01392) 382528

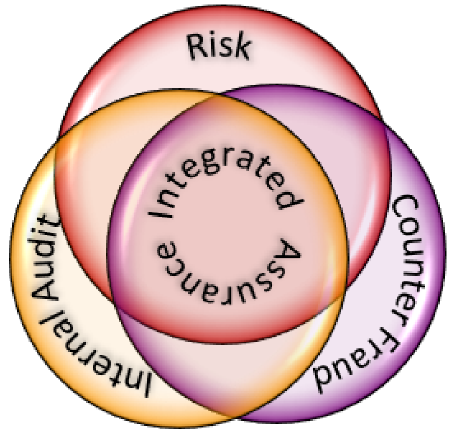
Risk Management

Audit Committee

Risk Management Update 2023/2024

Devon County Council

February 2024
Official



Support, Assurance and Innovation

Introduction and purpose of this report

We continue to see an increased awareness of risk and positive approach to risk management across the Council. Senior Leaders and Services are ever more engaged and this helps to support the identification and management of risks. Being able to identify and mitigate risks is more important now than it ever has been. Risk management is a key tool in helping to increase the likelihood of Council success and resilience in the face of sustained 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

This graphic details the current risk information as of 15th January 2024.

Total Risks	Total V/High Risks	Total High Risks	Total Medium Risks	Total Low Risks
216	10	50	61	95

The above figures include all risks recorded on the DCC Risk Management System, including Budget Book risks, Devon Pension Fund, Peninsula Pensions and Project risks. Some of these are reported and monitored separately such as those for the Pension area.

As would be expected our attention is often focused on the risks that have the highest score and at this time the ten risks that have the 'Very High' rating are:

Children and Young People's Futures – Social Care	1. Demand for Children's Services exceeds the financial provision (managing unit cost pressures) 2. Demand for Childrens Social Work (managing demand for services and packages of care) 3. CYPF: Savings and cost management strategies (Budget Book risk)	1. Major/Almost Certain > Very High (24) 2. Major/Almost Certain > Very High (24) 3. Major/Almost Certain > Very High (24)
Children and Young People's Futures – Education and Early Help	4. High Needs Block/DSG Deficit (insufficient funding to meet demand) 5. Failure to adhere to the statutory SEND Code of Practice: 0 to 25 Years	4. Catastrophic/Almost Certain > (30) 5. Major/Almost Certain > Very High (24)
HR	6. Recruitment and Retention	6. Major/Almost Certain > Very High (24)

Integrated Adult Social Care	7. OSLT-CM1 Failure of the Authority to meet its statutory obligations under The Deprivation of Liberty Safeguards (DoLS) 8. OSLT-CM12 Delivery of short-term services fails to fully meet the reablement needs of users referred to the service.	7. Major/Almost Certain > Very High (24) 8. Major/Almost Certain > Very High (24)
ICT	9. Corporate Services – ICT 10. Successful Cyber Attack	9. Major/Almost Certain > Very High (24) 10. Major/Almost Certain > Very High (24)

Further information on these risks are detailed in Appendix A.

Risk Update

Engagement with Leadership;

We are also pleased to attend Leadership Team Meetings for each service area, alongside our Internal Audit colleagues, this allows us to feed into audit plans, highlight risk areas and understand potential gaps in recorded risks.

Budget Book Risks.

As a result of continued financial pressures, any risk associated with the setting, monitoring and achievement of budgets are classed as 'Budget Book' risks. This approach was agreed with Senior Leaders in 2021, this work underpins a lot of what the council is trying to achieve and therefore, an understanding of the risks linked in this area is seen as a positive.

Currently, 65 risks sit within this Risk Register, the classification of these risks are detailed below:

The Budget Book risk register can be viewed by Members at [Budget Book Risk Recording].

Where a budget book Risk (as included in the published Budget Book) duplicates or overlaps with an existing service area risk, we have worked with officers to address this on the system and therefore avoid the effort in updating two risk records.

The Risk Management team has been tasked with providing support to the Budget Management Group and the Accountant Management Team meetings to provide challenge and support around these risks. There is a desire from Finance & Public Value leadership that financial 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. There are plans to support the regular 1-2-1 discussions with the accountancy team and relevant service area officers to utilise Risk Management tools and processes to increase success.

Clearly, budgets are of very high concern and present a very real risk, therefore the council must mitigate these risks 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 Finance and Public Value is the project to support the replacement of its legacy finance system 'Finest'. The project is due to proceed to the implementation of the new system with Unit 4. This project is due to be implemented in September 2024, the design phase (of which DAP has reviewed) has been completed and the project is now in the build phase.

Risk identification, analysis, mitigating, support and facilitation services have been provided for this project. Work continues to ensure that the risks are captured and recorded on the corporate risk register. The risk themes are recorded as follows;

- **Failure of Project Control**
- **Failure of Long-Term Benefits**
- **Functional Failure**

We continue to highlight areas of concern to the Project Leadership and the Board. Resource within the project team is of a high concern, a large and complex project requires skilled individuals, there are several vacancies with the team, which is causing concern and we have highlighted our concern to the project leadership.

SEND Finance

We are pleased to be supporting the SEND team (and wider DCC colleagues) in the response and management of SEND financial risks and challenges. Our work in this area includes;

- Working with the Risk Champion in this area for a full review of current risks, ensuring risks are accurately defined and scored. Mitigating controls have also been reviewed to check for effectiveness and relevance.
- Working alongside the Programme Manager and Project Leads, supporting the Safety Valve work. We have provided risk support in design, and we are scheduled (22/02/24) to facilitate a Risk Identification Workshop with the Programme Manager and Project Leads.
- DAP has provided 2 Full time positions to the SEND team to assist in identify payment and process errors. Brad Hutton (Senior Assurance Manager – Risk Management) is part of this work, this allows risk identification work in this area.

Changes in the risk picture;

Appendix A details the risks with a current score of 'Very high'.

Since the last report to Audit Committee, it is noted the following changes have been noted within the **Children and Young People's Futures** risk register: -

- Recent review by the service area resulted in an increase in the current risk scores for risk High Needs Block/DSG Deficit (insufficient funding to meet demand) and risk CYPF: Education and Learning – Schools budgets.

Since the last report to Audit Committee, it is noted the following changes have been noted within the **Integrated Adult Social Care** risk register: -

- Risk OSLT-CM12 Delivery of short-term services fails to fully meet the reablement needs of users referred to the service, replaces and supersedes the previous risk OSLT-CM2 of the same name, the newly worded risk and controls has been included to reflect the current commissioning model.

- Recent review by the service area resulted in an increase in the current risk scores for risk OSLT-CM1 Failure of the Authority to meet its statutory obligations under The Deprivation of Liberty Safeguards (DoLS), risk of Preventable death, injury or serious harm to an adult at risk as a result of institutional abuse and risk OSLT-CM3 Poor assessment and review performance results in needs and changes in circumstances not being appropriately matched to required support.

Since the last report to Audit Committee, it is noted the following changes have been noted within the **Legal and Democratic Services** risk register:

- A new Coroner's Service risk - Disruption to Inquests has recently been included by the Legal and Democratic Services area.

Other areas of focus:

New Risks

There has been a new Communities (council wide) risk developed, in consultation with other services and stakeholders, relating to the risk of Sudden Cessation of the Household Support Fund (£10m per annum). It remains to be seen whether funding is confirmed beyond 31 March 2024. Current risk score 16 : High.

There is a new risk in development relating to the risk to establishing the Combined County Authority (Devolution Deal), this risk will be managed by the Economy, Enterprise and Skills area and will be a council wide risk. Further information will be provided within the next report.

Shared Corporate Risks

The Risk Management team is working with SLT leads and Leadership Teams to address new and emerging shared corporate risks. A recent example of this is the risks associated with Artificial Intelligence (AI). We attended the Senior Leadership team on the 16th January 2024, to share this paper - AI Risk Identification. At the request of the Chief Executive, this item was shared by the Risk Management team at Extended Leadership Team, to specifically highlight the risks and opportunities from AI. This has subsequently resulted in the Risk Management Team working alongside ICT colleagues to formally recognise this risk and implement mitigating controls and processes to inform and guide staff.

Horizon Scanning

The Risk Management 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 also keep abreast of the global, national, and regional 'external' risk position and the impact of external risks on the Council, it's service and population.

The recently published World Economic Forum Global Risks Report 2024 includes the results from the Global Risks Perception Survey 2023-24 and explores some of the most severe risks we may face in the next decade, against a backdrop of rapid technological change, economic uncertainty, a warming planet and conflict. Global Risks Report 2024 | World Economic Forum | World Economic Forum (weforum.org). The Global Risks Report 2024 presents the findings of the Global Risks

Perception Survey (GRPS), which captures insights from nearly 1,500 global experts, the chart below details what risks will be present in the short term (2 years) and long term (10 years);

FIGURE C Global risks ranked by severity over the short and long term – Global Risks Report 2024 – WEF.

Our work in Risk Management is to ensure that relevant risks are flagged to leadership where appropriate, to allow further risks to be identified or existing risks to be enhanced.

<u>Power Dashboard –</u>

Maximising access to new software is enabling risk reporting to become more interactive and live. Power BI is used to provide a visual presentation of current risk information, the link below can be used to see the current risk reporting.

The Dashboard displays and overall risk profile for the Council and should provide both insight and assurance to the Committee that the risk management process is continuing to capture and update risks linked to current activities. The information within this dashboard is now updated from the Risk Register twice per week, providing the most up to date view of data. The Dashboard is evolving to ensure that the information held is presented in a clear and useable format.

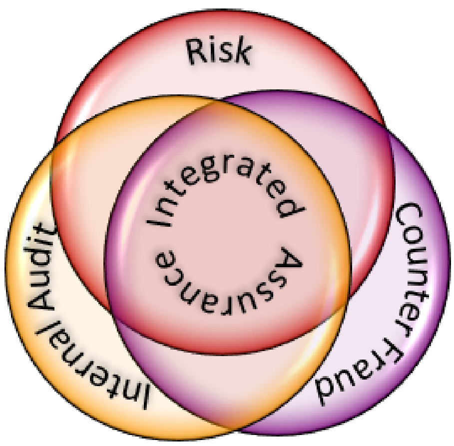
Further details can be obtained from Devon Audit Partnership via Tony Rose (Head of Partnership) tony.d.rose@devon.gov.uk, or Brad Hutton (Senior Assurance Manager) Bradley.hutton@devon.gov.uk who will be pleased to receive your comments and thoughts on risk management within the Council.

Supporting Appendices

Appendix A – Risk Register Extracts

Appendix B – Risk Scoring Guidance

Appendix C – Power BI Extract



Appendix D – Audit, Risk & Counter Fraud Integration

Appendix A – An extract of the Very Highest Rated Risks Based on Current (Mitigated) Risk Score.

Risk Title	Service Area	Risk Category	Current Impact	Current Likelihood	Current Rating	Risk Owner	Accountable Officer	Change direction	Score change since last review
High Needs Block/DSG Deficit (insufficient funding to meet demand)*	Children and Young People's Futures - Education and Early Help	Financial	5 : Catastrophic	6 : Almost Certain	30: Very High	Kellie Knott	Stuart Collins	↑	+ 6
Demand for Children's Services exceeds the financial provision (managing unit cost pressures)*	Children and Young People's Futures - Children's Social Care	Financial	4 : Major	6 : Almost Certain	24: Very High	Stuart Collins	Leadership Group	⇔	0
Demand for Children's Social Work (managing demand for services and packages of care)*	Children and Young People's Futures - Children's Social Care	Financial	4 : Major	6 : Almost Certain	24: Very High	Jassi Broadmeadow	Stuart Collins	⇔	0
CYPF: Savings and Cost Management Strategies	Children and Young People's Futures - Children's Social Care	Financial	4 : Major	6 : Almost Certain	24: Very High	Steve Liddicott	Stuart Collins	⇔	0
Failure to adhere to the statutory SEND Code of Practice: 0 to 25 Years	Children and Young People's Futures - Education and Early Help	Compliance	4 : Major	6 : Almost Certain	24: Very High	Kellie Knott	Stuart Collins	⇔	0
HR: Recruitment and Retention	Human Resources	Operational	4 : Major	6 : Almost Certain	24: Very High	Andrea Owen	Maria Chakraborty	⇔	0

Risk Title	Service Area	Risk Category	Current Impact	Current Likelihood	Current Rating	Risk Owner	Accountable Officer	Change direction	Score change since last review
OSLT-CM1 Failure of the Authority to meet its statutory obligations under The Deprivation of Liberty Safeguards (DoLS)	Integrated Audit Social Care – Adult Care Operations and Health	Operational	4 : Major	6 : Almost Certain	24: Very High	Sandra Geary	Gary Patch	↑	+ 6
OSLT-CM12 Delivery of short-term services fails to fully meet the reablement needs of users referred to the service	Integrated Audit Social Care – Adult Care Operations and Health	Operational	4 : Major	6 : Almost Certain	24: Very High	Gary Patch	Keri Storey	N/A	
Corporate Services ICT	Transformation & Business Services	Financial	4 : Major	6 : Almost Certain	24: Very High	John Bristow	Gary Dempster	⇔	0
BI21 - Successful Cyber Attack	Council Wide – Transformation & Business Services	Operational	4 : Major	6 : Almost Certain	24: Very High	John Bristow	Gary Dempster	⇔	0

As noted in the update report to the November 2023 Audit Committee, some of the risk titles included in the table above have recently been updated to better articulate the risk to the service area, this applies to risks 'High Needs Block/DSG Deficit (insufficient funding to meet demand)', 'Demand for Children's Services exceeds the financial provision (managing unit cost pressures)', and 'Demand for Children's Social Work (managing demand for services and packages of care)'. *These risks are currently subject to review by the service area.

Appendix B – Risk Scoring Guidance

Risk Scoring Guidance is published at [Manage risks - tasks and guides (devon.gov.uk)]

This includes a risk Impact Assessment Guide, risk Likelihood Guide and One page risk management Summary (including risk scoring matrix)

Devon County Council

Impact Assessment Guide

	Health & Wellbeing	Service Users	Stakeholders	Reputation	Performance / quality standards	Legal	Financial	Pensions & Investments
1 Negligible	Insignificant impact on public's health and wellbeing. Very small number of the population affected.	Minimal impact or service disruption to customers. Contained within service area.	Affects only 1 group of stakeholders	Minimal and transient loss of public trust. Contained within the individual service area.	No impact on local standards.	No legal action is anticipated.	Under £25,000	Under £100,000
2 Minor	Minor impact on health and wellbeing affecting a small number of the population. Likelihood of fatalities is negligible.	Minor impact to customers and customer. Limited service disruption.	Affects more than 1 group of stakeholders	Slight loss of trust with no lasting impact. Little adverse publicity.	Failure to meet local standards.	Tribunal / DCC legal team involvement required (potential for claim).	£25,000-£100k	£100k - £1m
3 Moderate	Significant impact on health and wellbeing affecting a large number of the population. Fatalities not anticipated.	Moderate impact to customers and customer. Moderate service disruption.	Affect 2-3 groups of stakeholders	Moderate loss of trust that receives significant adverse publicity locally with no lasting impact.	Failure to meet national standards.	Defensible legal action anticipated.	£100k - £1m	£1m - £10m
4 Major	Significant impact on health and wellbeing affecting large number of the population. Fatalities are anticipated.	Significant impact to customers and customer. Threat of legal action	Affects 4-5 groups of stakeholders	Significant loss of trust and receives local media attention with potential for lasting impact.	Failure to meet professional standards / statutory requirements	Criminal prosecution anticipated and or civil litigation (1 person).	£1m - £10m	£10m - £100m
5 Catastrophic	Large impact on health and wellbeing affecting a very large number of the population. Multiple fatalities are anticipated.	Major service disruption. Significant customer opposition. Legal action. Long term public memory	Affects more than 5 groups of stakeholders	Significant loss of trust and receives national media attention with potential for persisting impact.	Sustained failure to meet professional standards or statutory requirements.	Criminal prosecution anticipated and or civil litigation (>1 person).	>£10m	>£100m

1. **Choose the relevant columns and note the closest description of potential impact.**
2. **Then use the score from the most relevant column. For example, if there may be a high financial impact, but the initial impact may be loss of life, choose the Health and Wellbeing Score.**

Devon County Council

Likelihood Guide

Consider the statements below as guides, choose scoring as appropriate to the risk being considered.

For advice contact your Risk Champion or finance.riskmanagement-mailbox@devon.gov.uk

Score	Likelihood	Threat/Risk (not all need to apply)
2	**Rare**	It is never likely to occur and/or Very unlikely this will ever happen e.g. Once in 100 years.
3	**Unlikely**	May occur in exceptional circumstances and/or Not expected to happen, but is possible, e.g. Once in 25 years.
4	**Possible**	Could occur in certain circumstances and/or May happen occasionally, e.g., once in every 5 - 10 years and/or Has happened elsewhere.
5	**Likely**	Will probably occur in many circumstances and/or Will probably happen, but not a persistent issue, e.g., at least once every 1 - 2 years and/or Has happened in the past.
6	**Almost Certain**	Is expected to occur in most circumstances and/or Will undoubtedly happen, possibly frequently. and/or Imminent/near miss.

Risk Management - is a modern management discipline and is about getting the right balance between innovation and change on the one hand, and the avoidance of shocks and crises on the other.

1. Identify your risks

Risk: an event or action that will have affect our ability to achieve our **objectives**

Opportunities **and** Threats

Event leads to Impact

Identify in groups - by those responsible for delivery of the objectives

When:

Setting strategic aims

Setting business objectives

Early stages of project planning & key stages

Entering partnerships

Categories can help:

Political, Economic/Financial, Social, Technological, Legislative/Legal, Environmental, Community, Professional/Managerial, Physical, Partnership/Contractual.

2. Assess your risks

Combination of the probability of an event and its consequences; Impact x Likelihood::

LIKELIHOOD					
	6	12	18	24	30
	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	IMPACT				

24 - 30 VERY HIGH (VIOLET)

- Immediate action

15 - 20 HIGH (RED)

- Regular review to seek better control

10 - 12 MEDIUM (AMBER)

- Review current controls / incorporate into action plan

1 - 9 LOW (YELLOW)

- Limited action - long term plans

3. Respond to risks

Concentrate on Top Risks:

Set risk appetite

Proportionate and cost-effective response

Can we reduce likelihood?

Can we reduce impact?

Can we change the consequences?

Treat

Transfer

Tolerate

Terminate

Devise Contingencies

Business Continuity Planning

4. Monitor & Review

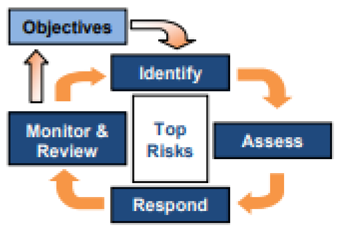
Risk Registers:

Baseline data to be prepared and monitored regularly; these should clearly indicate impacts, responses and contingencies as well as the risk owner.

Use early warning indicators.

Review Top Risks regularly as agenda item.

Report progress to senior management.



Appendix C – Power BI Extract

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.

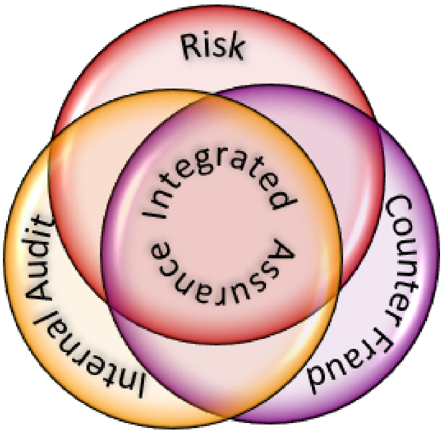
Please note that the data contained within the above pdf extract is representational. Please view the Power BI link for full risk information.

Appendix D - Audit, Risk & Counter Fraud Integration
Support, Assurance and Innovation

devon audit partnership

Our Vision

To be the leading provider of assurances services covering internal audit, counter fraud and risk management to public and not-for-profit organisations in the South West and beyond.



Operational delivery

- **Assurance Audit** Plans based on the best and most up to date risk information
- Agile **Internal Audit** Plan
- Live **risk management** reporting and support across the Council.
- Deliver a best in class **risk management framework**
- **Counter Fraud** Team co-ordinate / undertake irregularities work coming through the **audit** plan
- Potential irregularities triaged to **fraud or audit** for review. Use of data analytics.
- **Proactive fraud** work e.g. NFI, developing a 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 where possible

Our Goals

Meet Client Needs	•Counter Fraud Strategy •Integrated Audit, Risk and Counter Fraud Activity •Easy access to additional services •Respond jointly to client concerns
IA, RM & CF Working Together	•Joint working practices •Staff understanding of audit, risk and fraud interrelationships •Assurance Ofifcers
Efficiency	•Joint reviews on client functions and operations •Best skills from each team used at the right time •Tell us once •Joint outcomes
Infrastructure	•Integrated resource management •Joint Performance Reporting •Joint infrastructure

devon audit partnership Counter Fraud Services

devon audit partnership Risk Management

devon audit partnership Internal Audit

DFP/24/23
DCC Audit Committee
28th February 2024

Report of the Director of Finance

Counter Fraud Update February 2024

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

1) Recommendation

That the Committee: 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 for the first six months of the financial year 23/24 and supports the Councils ongoing commitment as outlined in its Anti-Fraud Bribery and Corruption Policy / Strategy and Response Plan.

2) Background / Introduction

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.

3) Main Body / Proposal

The attached report sets out the Counter Fraud work being undertaken on behalf of and by Devon County Council for the first six months of the financial year 23/24 and supports the Councils ongoing commitment as outlined in its Anti-Fraud Bribery and Corruption Policy / Strategy and Response Plan.

4) Options / Alternatives

Not Applicable

5) Consultations / Representations / Technical Data

This report has been agreed with DCC SLT.

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.

8) Legal Consideration:

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

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) Risk Management Considerations:

There are no specific Risk Management considerations associated with this report

12) Public Health Impact:

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

13) Summary/Conclusions/Reasons for Recommendations:

Reasons for reviewing the report and information within it are linked to the Committees Terms of Refence and those relevant to this meeting.

i. Note the update in connection with Fraud Prevention and Detection in DCC.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
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Devon County Council

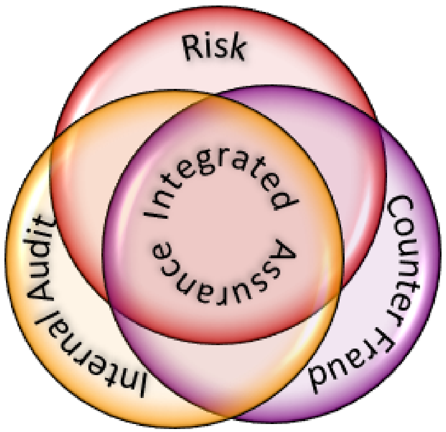
devon audit partnership

Counter Fraud

Audit Committee
In-Year Monitoring Report
2023/2024

Page 507

Devon County Council



February 2024
Official

CUSTOMER SERVICE EXCELLENCE CSE

Support, Assurance and Innovation

1. Executive Summary

1.1 The following is the Devon Audit Partnership (DAP) Counter Fraud Services Team Update for February 2024. It outlines the counter fraud work undertaken in support of Devon County Council and its continued efforts to ensure that appropriate Governance processes are in place. This includes acknowledging the threats posed by fraud, preventing and pursuing those who would look to commit fraud and providing assurance that the Council and the public are being protected from fraud.

1.2 In the financial year to date the Counter Fraud Services Team have –

- Received and processed 56 allegations of fraud and related offences against the Council and its citizens.

- Supported the Council's commitment to the National Fraud Initiative, by checking matches and supporting the relevant departments accordingly. Checks against higher risk matches continue to be undertaken by the Council and by DAP staff. Current savings figure against this exercise is a £1,242,830.00 with a potential further 162 records requiring further enquiries.

- Undertaken rolling monthly data analysis exercises to identify potential fraud and error in multiple Council systems.

- Provided support and technical advice to management and staff around internal and external threats.

- Progressed the Single Person Discount review initiative which is now resulting in uplift in Council Tax collectible revenue.

1.3 It is good to be able to report that much good work has again been carried out across the Council and that fraud awareness and counter fraud activity is increasing and we will continue to encourage this work throughout the rest of the year. Of special note is the hard work that staff within the Council itself have been undertaking in respect of the National Fraud Initiative (*see section 5 below*) clearing these matches shows a commitment to fighting fraud and maintaining accurate and up to date records, which in turn makes potential fraud easier to uncover.

2. Introduction

2.1 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.

2.2 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.

2.3 Reporting Counter Fraud activity is part of good Governance, and regular updates on the Council's Counter Fraud activity improves accountability; this report aims to meet this requirement and the requirements for such reports in accordance with the Councils own Anti-Fraud, Bribery and Corruption Policy and the accompanying Strategy and Response Plan.

2.4 It is always worth reiterating that fraud is by definition a crime and should not be tolerated. Any fraud against Devon County Council is a fraud against the public purse. We will continue to acknowledge the threat from fraud, build processes and policies that will prevent fraud and pursue those who would commit fraud to ensure that the public retain confidence in the Council. Collaboration across the public sector will continue and strengthen under the current working arrangements through DAP and its partners.

3. Fraud Response / Resilience Assessment.

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) reports that local authorities have achieved success by taking a structured response to fraud and that they now need to respond to an ever-increasing fraud threat, and further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and focused on the key changes that will make the most difference.

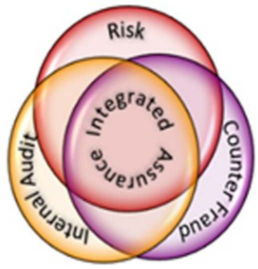
3.2 A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.

3.3 Devon Audit Partnership will continue to encourage best practice in line with CIPFA guidance and enable the Council to share knowledge and understanding of the threats faced across the region and nationally by actively engaging with the West of England Fraud Group and the Fighting Fraud and Corruption Locally Regional Group. It will also integrate other best practice as and when these are discovered by the team or by others within the counter fraud community.

3.4 The 2022/23 assessment was very positive and future assessments we will be looking to add further value by providing a more granular view with suggestions for further improvement in order to ensure that the Council maximises its resilience as the fraud picture changes. The 23/24 assessment results will be published with the End of Year Report later in 2024.

4. Integration of Counter Fraud, Risk Management, and Internal Audit.

4.1 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).



4.2 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.

4.3 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.

4.4 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.

4.5 The Counter Fraud Services Manager is currently seeking membership with the Southwest Fraud Forum, "*Fraud costs the UK billions of pounds per year and is now believed to account for 40% of all crime committed in the jurisdiction. With only finite public resources available to tackle this economic pandemic, it is becoming more vital than ever that business and industry – which are often at the front line in dealing with the risks posed by fraud – are equipped to tackle this problem head on and to protect and preserve their legitimate interests. The South West Fraud Forum helps regional business and industry to understand and combat the risks posed by fraud.*"

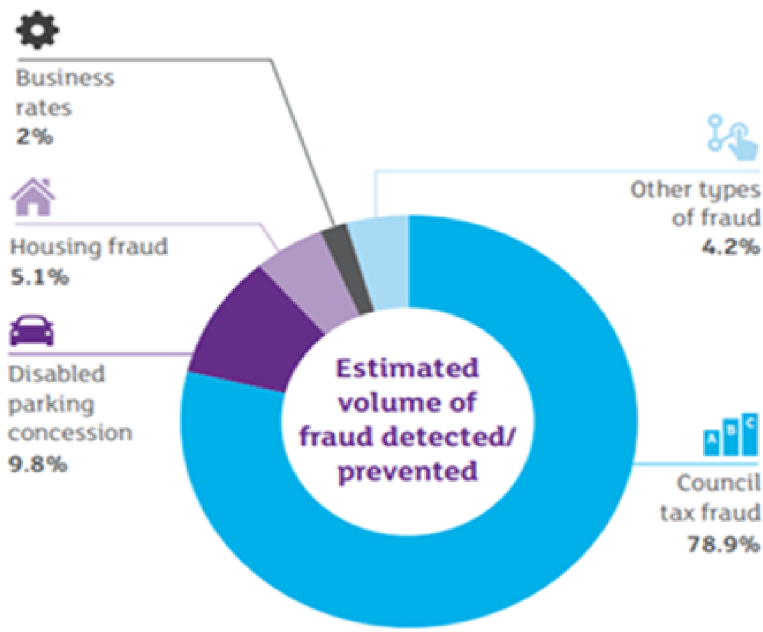
4.6 Resilience and overall assurance are improved by the sharing awareness and knowledge, joining with others increases confidence in decision making and the Team will continue to look for new partners and agencies to further this end.

5. National Fraud Initiative

5.1 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.

Cabinet Office

5.2 Devon Audit Partnership acts as the main 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.



5.3 The 2020/21 and 2022/23 exercises have resulted in changes in entitlement which have in turn resulted in an (estimated) total of £2,694,723 in potential savings across the Council.

5.4 Departments that complete the returned matches show that they are actively involved reducing fraud risk to improve assurance as well as making sure that wherever possible their data management is compliant with the Data Protection Act 2018.

5.5 Devon Audit Partnership will continue to support and encourage completion of the NFI returns and future results will be reported to the Audit Committee in the regular Counter Fraud Updates in future. The next national exercise will start in September 2024

6. Investigations and other ongoing work

6.1 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.

6.2 Four Local Authorities have now signed contracts to undertake the exercise. A further three are committed to the exercise but have yet to sign a contract, leaving just one local authority advising that "due to resourcing issues they will review in the new year." We will continue to encourage this LA to participate fully to ensure that the correct level of Council Tax is accurately billed and collected appropriately.

6.3 Three District / Borough LA's exercises have been completed or are nearing completion, resulting in 814 Single Person Discounts being withdrawn with a revenue uplift figure of £531,583.08 having already been realised.

6.4 Three further Devon Districts have indicated that they will be undertaking the exercise over the coming months, and we will continue to update this Committee on finalised figures and progress as and when they become available.

6.5 We continue to support service areas that require data analysis and monitoring of transactions to act as early warning of impending cyber-attacks.

6.6 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 agreed. Training for Civil Enforcement Officers and Administration staff has been completed and a date of action is to be agreed.

6.7 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.

6.8 The DAP Team is also looking into the latest offer form the Cabinet Office in respect membership of the 'Fraud Hub' which is a new tool that builds on the National Fraud Initiative (NFI), which is undertaken every 2 years to find fraud and error within public sector databases.

The main advantage of signing up to the Fraud Hub is that data can be uploaded to the system at any time, to create a list of matches. There is functionality with the Fraud Hub to also match across organisations, for example, if Devon County Council and Plymouth City Council, both signed up to the system, their data could be matched against each other. This also includes Local Authorities outside of Devon Audit Partnership (as an example Bristol City Council are already a member).

The average outcome per member for the 22/23 year was £793,153 in savings, this number can fluctuate based on the size of the authority, and also the number of times that matches are run. This figure will be a mixture of cashable and non-cashable savings.
A report will be created for submission to the Director of Finance with our recommendations and is nearing completion.

7. Policy and Strategy updates

7.1 The Anti-Fraud Bribery and Corruption Policy, the Anti-Fraud, Bribery and Corruption Strategy and Response Plan are due for renewal and update as is the Whistleblowing Policy.

7.2 There has been no significant change in legislative or procedural requirements at this point in time in respect of the Anti-Fraud Policy, Strategy and Response Plan, however legislative change and or guidance from HM Government is imminent in respect of new failure to prevent fraud offence meant to hold organisations to account if they profit from fraud committed by their employees. This will improve fraud prevention and protect victims.

DAP and counter fraud professionals across the country are seeking further clarification around what this means for Councils, the Fighting Fraud and Corruption Locally Regional Group are meeting regularly to assess the impact and the DAP Counter Fraud Services Manager will update this committee as and when the new legislation becomes effective. (The Government is obliged to issue guidance prior to the legislation coming into force). Once the guidance has been published the Policy and Strategy will be updated and brought before the Audit Committee for approval.

7.3 There has been no significant change in legislative or procedural requirements at this point in time in respect of the Whistleblowing Policy, however legislative change or guidance is expected imminently in connection with HM Governments Review of the Whistleblowing Framework, it is therefore prudent to await any outcome from the review. Once the outcomes have been published and any amendments and or procedural changes have been made to the Policy, it will be brought before the Audit Committee for approval.

8. Other updates

8.1 HM Government has initiated an Independent Review of Disclosure and Fraud Offences, as it is felt "*There has not been an independent review of fraud since 1986. Since that time, the nature and scale of fraud has evolved considerably, now constituting over 40% of all offences in England and Wales. As the proportion of online-enable fraud has increased, so have the challenges facing investigators and prosecutors.*
One significant challenge is the already large and continually increasing volume of digital material that fraud and other complex crime cases generate. As a result, significant time and resource is required to undertake an investigation and bring a prosecution to court.
The Review will explore barriers to the investigation, pursuit, and prosecution of fraud offences in England, Wales and Northern Ireland. The Review will evaluate the nature of current penalties contained within the act and explore the role of civil powers to tackle fraud."

8.2 CIFAS recently published their FRAUDSCAPE 2023. "*This report combines data from their National Fraud Database (NFD) and Internal Fraud Database (IFD), along with intelligence provided by Cifas members, partners and law enforcement. In 2022, their members prevented more than £1.3bn of fraud losses through the use of the NFD but they know they can help prevent and detect even more fraud and financial crime by developing a better understanding of key threats and enablers – which is the main purpose of this report.*
Over 409,000 cases recorded on the NFD in 2022 – the highest level ever recorded.
68% of cases concerned identity fraud, demonstrating the challenge organisations face in verifying customers through digital channels."

9. Conclusion

9.1 Whilst much good work is being done to counter the threat posed by those who would defraud the Council, there is always more to do. It is clear from all reports that fraud activity continues to increase in all sectors of society and that the threats posed are more varied and ever changing.

9.2 Recent, current, ongoing issues and reviews into fraud activity across the UK indicate that HM Government is becoming ever more involved in counter fraud activity and that it is encouraging cross sector intelligence sharing and a more robust approach to countering these threats.

9.3 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.

9.4 The Devon £ can only be spent once and we will continue to assist the Council in making sure that it is spent only where there is genuine entitlement and need. We will encourage further data led exercises to improve detection and correction along with cross sector collaboration to ensure that we help the Council protect Devon citizens from fraud.

Ken Johnson
Counter Fraud Services Manager

Tony Rose
Head of Devon Audit Partnership

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 and the Devon and Somerset Fire and Rescue Authority. We aim to be recognised as a high-quality assurance service provider in the public sector.

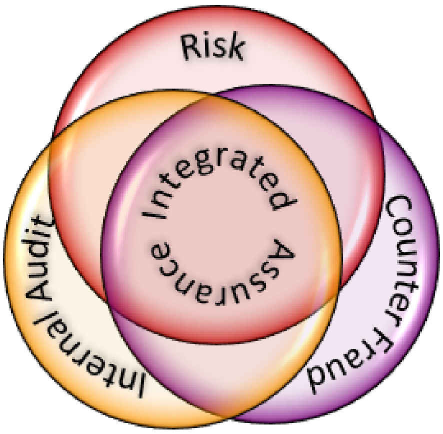
We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice 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.

(Fighting Fraud and Corruption Locally 2020)

Our Vision

To be a leading provider of internal audit, counter fraud, risk management and assurance services to public and not-for-profit organisations in the South West and beyond.



Operational delivery

- **Assurance Audit** Plans based on the best and most up to date risk information
- Agile **Internal Audit** Plan
- Live **risk management** reporting and support across the Council
- Deliver a best in class **risk management framework**
- **Counter Fraud** Team co-ordinate / undertake irregularities work coming through the **audit** plan
- Potential irregularities triaged to **fraud or audit** for review
- **Proactive fraud** work e.g. NFI, developing a 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 where possible

Our Goals

Meet Client Needs	• Counter Fraud Strategy • Integrated Audit, Risk and Counter Fraud Activity • Easy access to additional services • Respond jointly to client concerns
IA, RM & CF Working Together	• Joint working practices • Staff understanding of audit, risk and fraud interrelationships • Assurance Oifcers
Efficiency	• Joint reviews on client functions and operations • Best skills from each team used at the right time • Tell us once • Joint outcomes
Infrastructure	• Integrated resource management • Joint Performance Reporting • Joint infrastructure