

# Auditor's Annual Report on Devon County Council

2020-21 and 2021-22

February 2024



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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.



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## Appendices

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

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# Executive summary



## Value for money arrangements and key 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 weaknesses in arrangements identified and key recommendation made	 Significant weaknesses 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.



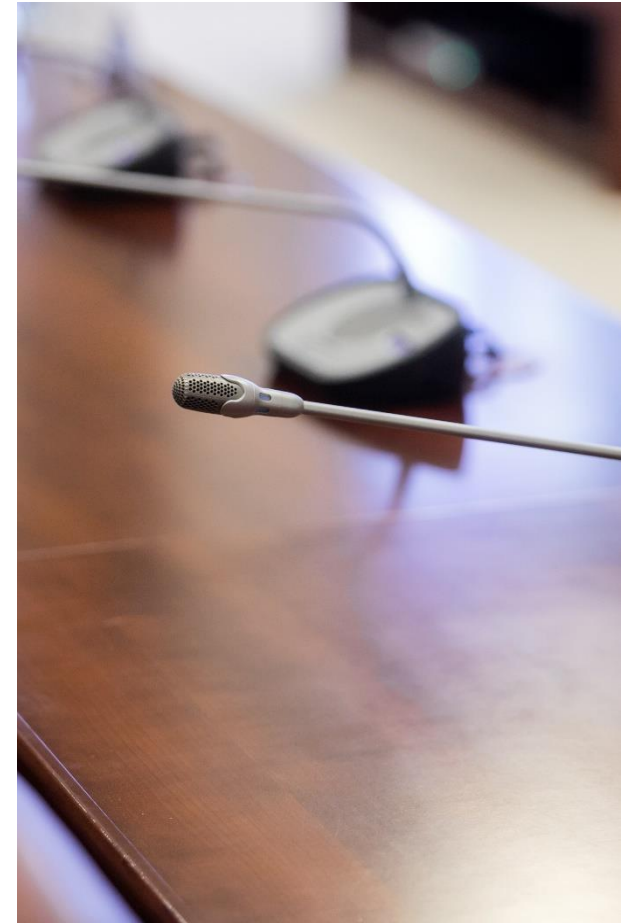
## Governance

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

<b>1 Recommendation</b>	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.
<b>Why/impact</b>	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.
<b>Summary findings</b>	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".
<b>Management comment</b>	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

<b>2 Recommendation</b>	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.
<b>Why/impact</b>	To ensure that appropriate quality services are provided to support children in Devon.
<b>Summary findings</b>	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.
<b>Management comment</b>	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 brought 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 underspend 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
<b>Budget savings required/(Surplus)</b>	<b>0</b>	<b>35,482</b>	<b>3,062</b>	<b>4,635</b>
Savings and additional income	(38,741)	(9,516)	(8,836)	(1,729)
Further savings required	0	(35,482)	(3,062)	(4,635)
<b>Total Savings to be delivered</b>	<b>(38,741)</b>	<b>(44,998)</b>	<b>(11,898)</b>	<b>(6,364)</b>
<b>Reserves and Balances</b>				
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.

**DSG Recovery planning 2020/21 and 2021/22**

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).

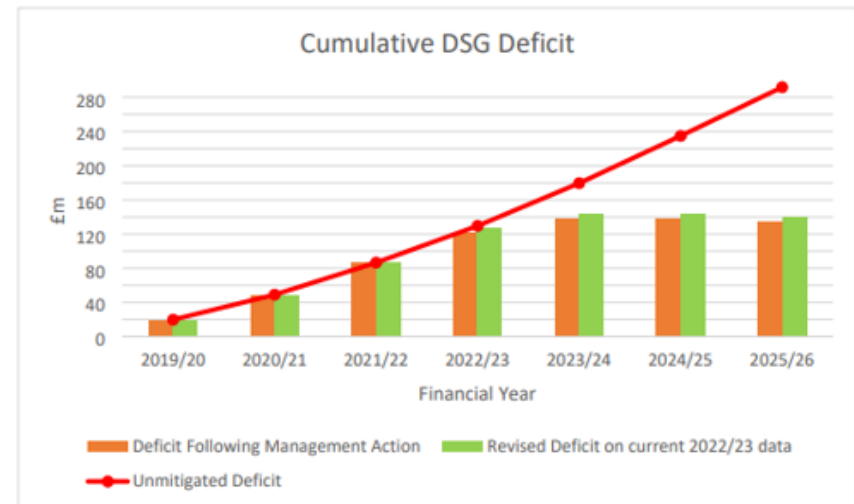
A recovery plan is under negotiation with the possibility that the deficit will be addressed through a combination of ‘spend to save’ revenue funding from the Department for Education (DfE) and the use of a Capitalisation Direction (through the ‘Safety Valve’ intervention). The Council is awaiting final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

<b>2 Recommendation</b>	<p>The Council needs to ensure that</p> <ol style="list-style-type: none"> <li>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</li> <li>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.</li> </ol>
<b>Why/impact</b>	<p>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</p>
<b>Summary findings</b>	<p>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.</p> <p>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)</p>
<b>Management comment</b>	<p>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.</p> <p>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.</p>



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 (since 1 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.

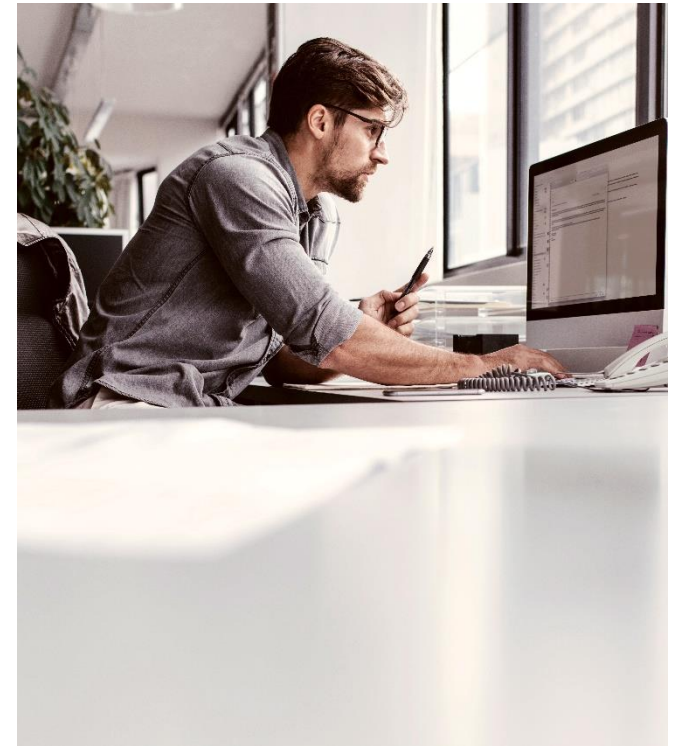
One member of staff left with a compromise agreement around September of 2020 in relation to Children's Services. Given the challenges in Children's Services we have concluded that this is unlikely to be indicative of a widespread governance failure, but more likely to relate to the significant challenges 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

<b>4 Recommendation</b>	The Council should consider refining the risk management arrangements to align with its strategic priorities.
<b>Why/impact</b>	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.
<b>Summary findings</b>	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.
<b>Management comment</b>	Management accepts this recommendation and we have taken steps to implement strategic priorities into our risk management processes.

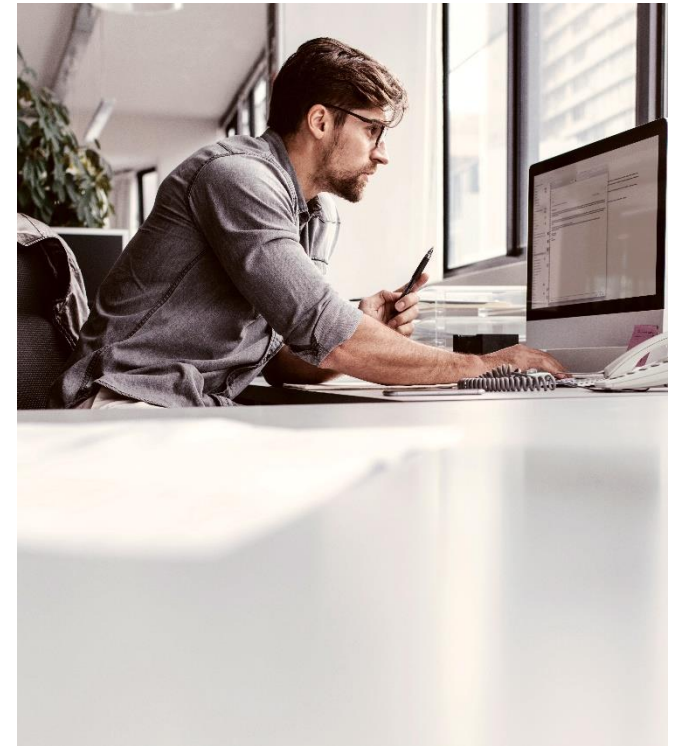


The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations

## Governance

<b>5 Recommendation</b>	There is an opportunity to enhance risk management by including sources of assurance as part of the Risk Management Annual Report.
<b>Why/impact</b>	This would improve transparency and support the work of the Audit Committee to ensure that the assurance for key risks is robust and sufficient.
<b>Summary findings</b>	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.
<b>Management comment</b>	The recommendation is accepted, and officers will incorporate further information in its Annual Report.



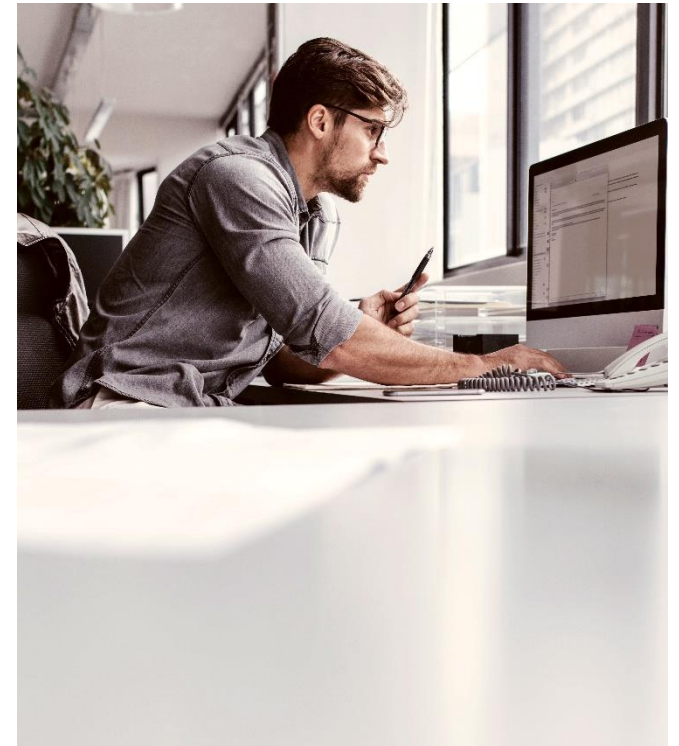
The range of recommendations that external auditors can make is explained in Appendix C.



# Improvement recommendations

## Governance

<b>6 Recommendation</b>	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.
<b>Why/impact</b>	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.
<b>Summary findings</b>	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.
<b>Management comment</b>	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.

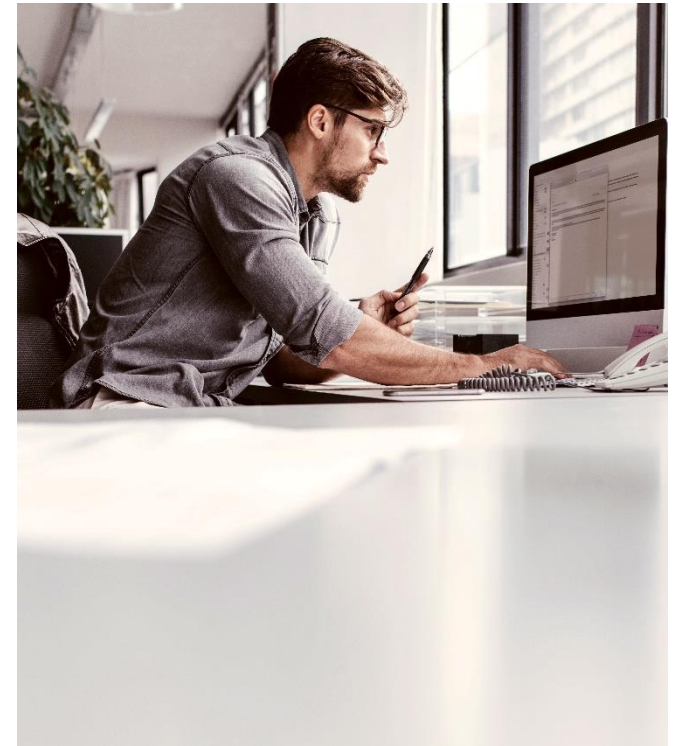


The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations

## Governance

<b>7 Recommendation</b>	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.
<b>Why/impact</b>	Compliance with the Members' Code of Conduct demonstrates that Members operate with integrity and transparency.
<b>Summary findings</b>	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.
<b>Management comment</b>	The recommendation is accepted, and processes will be updated to strengthen controls in reporting of declarations of interest.



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.

## 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.

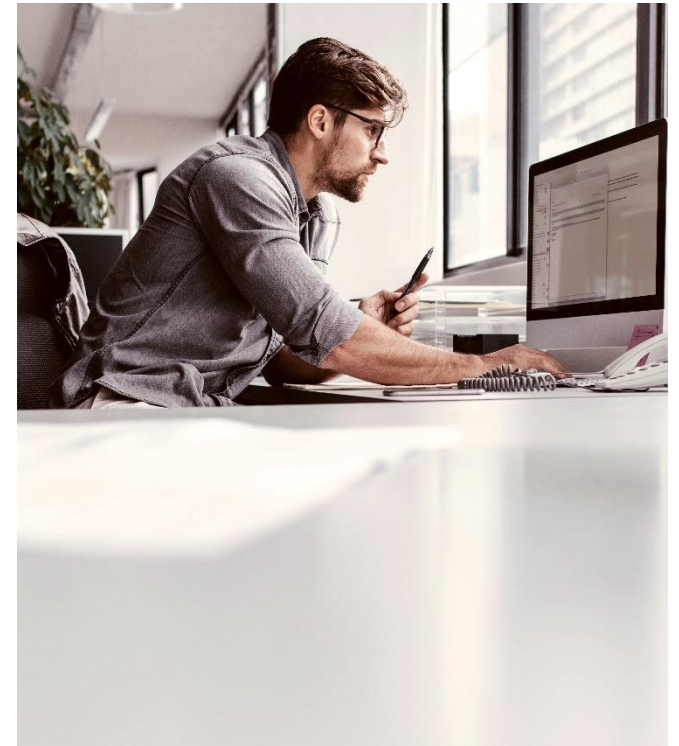
See also our comments on contract extensions above (see page 28).

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>8 Recommendation</b>	The performance management framework could be enhanced by <ul style="list-style-type: none"> <li>introducing a proportionate framework of high level strategic KPIs to monitor the Council's delivery of strategic objectives</li> <li>developing a systematic approach to the oversight of the work of significant partners.</li> </ul>
<b>Why/impact</b>	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.
<b>Summary findings</b>	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.
<b>Management comment</b>	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.



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

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>9 Recommendation</b>	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.
<b>Why/impact</b>	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.
<b>Summary findings</b>	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)
<b>Management comment</b>	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.



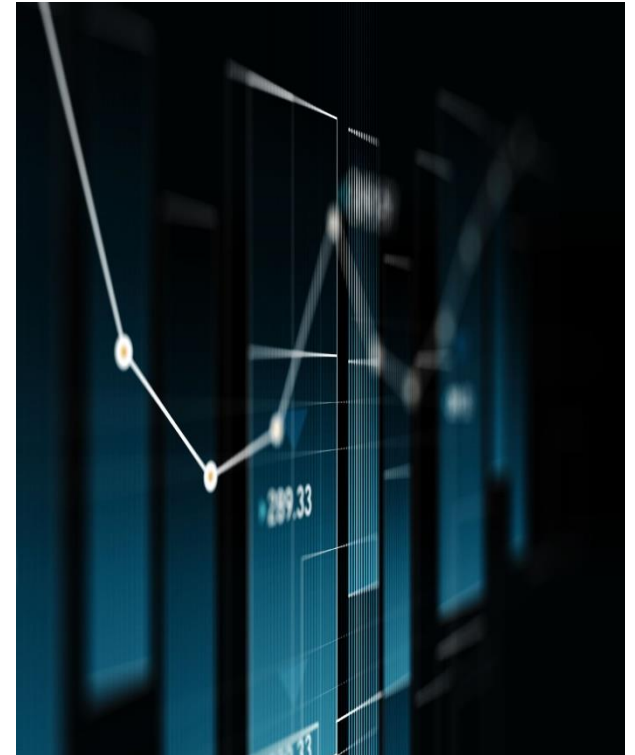
The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>10 Recommendation</b>	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.
<b>Why/impact</b>	There may be opportunities to further improve performance and the effectiveness of service delivery through the use of more meaningful benchmarking.
<b>Summary findings</b>	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.
<b>Management comment</b>	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

<b>11 Recommendation</b>	The Council must continue to robustly monitor its delivery partners and other stakeholders for signs of financial stress and/or failure to deliver.
<b>Why/impact</b>	To ensure that residents receive services which are of acceptable quality and that these services are able to continue.
<b>Summary findings</b>	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.
<b>Management comment</b>	<p>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.</p> <p>Measures which continue to provide assurance include:</p> <ul style="list-style-type: none"> <li>• Risk assessment via supplier Financial Resilience Monitoring to understand each supplier's financial position and business continuity impact.</li> <li>• 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.</li> <li>• Commissioning Service &amp; Procurement officers review risks and take required action.</li> <li>• 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.</li> <li>• Construction firms engaged by the Authority are monitored through another industry specific scheme provided by a specialist provider.</li> </ul>



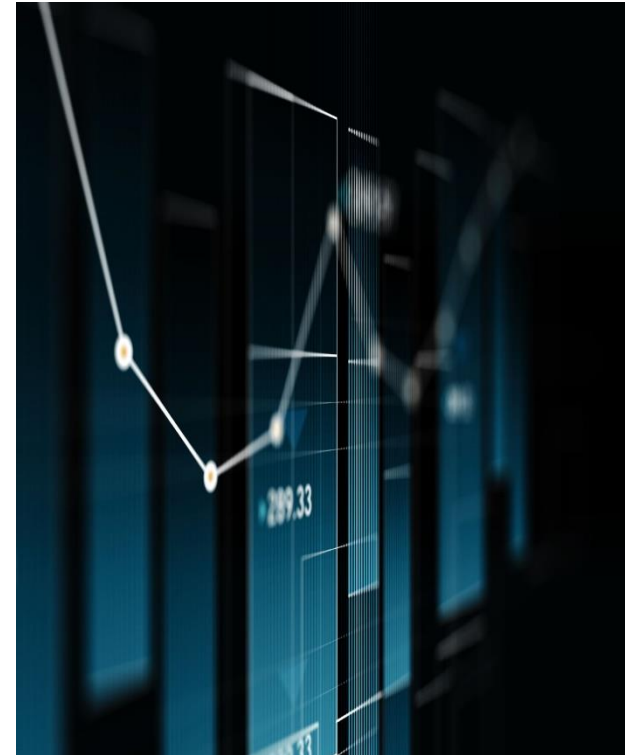


# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>12 Recommendation</b>	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.
<b>Why/impact</b>	There is a risk that with reduced staffing levels in procurement, value for money in procurement and commissioning may be compromised.
<b>Summary findings</b>	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.
<b>Management comment</b>	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.



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

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.

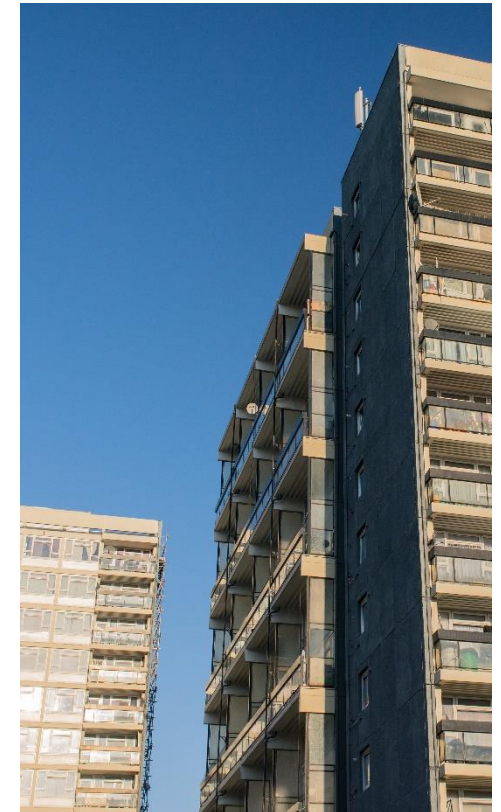
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

# 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.

