Auditor's Annual Report on North Devon District Council

2021/22

24 February 2023

Contents

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

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

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 and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below. The types of recommendations we can make are explained further in Appendix C.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but four improvement recommendations made	No significant weaknesses in arrangements identified, but two improvement recommendations made	⟷
Governance	Risk identified because the performance of projects Commercial Strategy to ongoing financial sustainability as well as regeneration goals, and monitoring arrangements are a development area	No significant weaknesses in arrangements identified, but three improvement recommendations made	No significant weaknesses in arrangements identified, but three improvement recommendations made	⟷
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but three improvement recommendations made	No significant weaknesses in arrangements identified, but one improvement recommendation 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

We did not identify any significant weaknesses in the council's arrangements with regard to financial sustainability for the 2021/22 financial year. The Council maintained appropriate arrangements to: manage its financial resilience risks; and to set, monitor and report progress against its annual budget, and the Medium Term Financial Strategy. The Council has a good track record of setting a balanced budget and delivering within budget.

The Council has recognised that significant inflationary pressures during 2022 have increased risks to its short-term and medium-term financial sustainability. The Council refreshed its initial 2022/23 budget and medium-term financial strategy in November 2022, and is planning to use around £1 million from its budget management reserve to bridge the immediate budget gap in 2022/23. It has also begun to develop options for savings above those set envisaged in the original 2022/23 budget collaborative with members, with the aim of bridging larger forecast budget gaps in 2023/24 and beyond. It has improved its approach to stakeholder consultation in advance of setting the budget and we recommend that the council builds on this to develop to developing savings plans in collaboration with local stakeholders.

We have completed our audit of your financial statements and issued an unqualified audit opinion on 30 November 2022, following the Governance Committee meeting on 26 September 2022. Our findings are set out in further detail on pages 5 and 27.

Governance

The Council maintained appropriate arrangements at a corporate level to monitor risks, set ethical standards and maintain an effective system of internal control during 2021/22.

In November 2021 the Council completed the £11 million purchase of the Green Lanes Shopping Centre in Barnstaple. We found that the council had developed a business case for purchasing the Centre as a retail concern and took appropriate advice to inform its valuation and bid to purchase the Centre. The Council's business case considered the revenue implications of its purchase on its finances on a year-by-year basis and the Centre provided a net positive revenue return to the council in 2021/22. The Council did not, however, include a full "value-for-money" assessment which took account of the potential full-lifecycle costs and benefits, including the Centre's capital value or the wider regeneration benefits the Council considers its ownership of the Centre should deliver over the longer term (or how it planned to measure these).

Improving economy, efficiency and effectiveness

We did not identify any significant weaknesses in the Council's arrangements to improve economy, efficiency and effectiveness. We note that the Council is currently refreshing its processes for reporting on Key Performance Indicators to Members, which is in line with our recommendation from 2020/21 that clarity of non-financial performance information could be improved. In this context, we make two improvement recommendation, which are: that the Council review its quality assurance processes around the development of key performance reports to ensure that information reported is accurate, as well as timely, and that any limitations with the underlying data systems are understood and that the Council identify opportunities to benchmark its performance (as well as costs) against similar and neighbouring local authorities.

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

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	We have completed our audit of your financial statements and issued an unqualified audit opinion on 30 November 2022. Our findings are also set out in further detail on page 27.
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not make 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 did not issue a Public Interest Report
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make and application to the Court
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue 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 did not apply for judicial review

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

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

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

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

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

Financial Sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

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

Financial sustainability

We considered how the Council:

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

2021/22 outturn and budget-setting for 2022/23

As at 31 March 2022, the Council's final outturn position was a budget surplus of £604,000, which was an overall movement of £515,000 from the last forecast at Quarter 3. This compares to a surplus of £593,000 against its original budget in 2020/21. In both years the timing of COVID-19-related grants from central government was a significant factor in the movement in the Council's financial position in the final quarter.

The Council set a balanced budget for 2022/23, informed by a refreshed, 5-year Medium Term Financial Strategy (MTFS), both approved by Full Council on 23 February 2022. Risks to maintaining a balanced budget were clearly identified and quantified in the MTFS narrative, and key assumptions clearly set out. The 2022/23 budget, as in the prior year, was also informed by service plans that were developed by Heads of Service, which were reviewed by the Policy Development Committee in January 2022.

The 2022/23 budget was based on a £5 increase in Council Tax for Band D properties. The Council Tax Base increased by 364 for 2022/23 and assumed ongoing growth of 450 additional properties per year based upon prior year averages (the 2020/21 average was 545). The Council noted in setting its budget that the government's Fair Funding Review and Business Rate Retention changes, originally planned for 2021/22 were delayed a further year (and have been delayed further). The Council was therefore able to account for around £1.7 million retained business rate growth in 2022/23.

Uncertainty remains over some of the Council's core income streams. The Council notes in particular that car park income remains difficult to predict and continues to be a major risk to the Council's budget. The car parks income budget for 2022/23 was set at £3.33 million, compared to £3.35m in 2020/21) This reflects pre pandemic performance (2019/20 car park income was £3.338 million) rather than 2021/22 actuals (£1.65 million) as the Council considers these levels were impacted by the pandemic.

Capital strategy and treasury management

The Council maintained adequate arrangements for treasury management, including reporting to Members, throughout the year. Full Council considered the Capital Programme for 2022/23 as part of the overall budget submission in February 2022. The impact of planned borrowing and investment was set out in detail in a budget book and the required mid-year and the Annual Treasury Management Reports for 2021/22 were received by the Strategy & Resources Committee in November 2021 and July 2022, respectively. Internal audit provided a "substantial assurance" opinion on the Council's treasury management control framework in 2021/22, making no recommendations.

We reported in our 2020/21 Auditor's Annual Report that the Council anticipated a significant increase in external borrowing to around £14 million in 2021/22. In the event, by 31 March 2022, £3 million of the Council's total £20.8 million was external borrowing. The Council drew down three new Public Works Loan Board loans were drawn in February 2022 for £2.5m, at terms of between 40 and 50 years and rates of 2.19% to 2.08%, respectively. Internal borrowing was £17.8m. The increase in borrowing required is reflected by an increase in MRP requirement from £514,000 in 2021/22 to £734,000 in 2022/23 (revised to £733,000 in November 2022). The scale of new borrowing reflects the Council's large capital programme, including the new Tarka Leisure Centre, Water Sports Centre and purchase of Green Lanes Shopping Centre (set out in more detail on pages 15 to 17)

Actual spending on the Capital Programme for 2021/22 financial year was £21,753,655 against a budget of £23,805,932 (a variance of £2,052,277); the majority of which will be carried forward into the 2022/23 Capital Programme to fund on-going projects. The overall Capital Programme for 2022/23 to 2024/25 is £26,948,994. Variances against the capital programme are reported on an ongoing basis withing quarterly performance and financial management updates to the Strategy and Resources Committee, and movements between years are explained briefly.

Financial Sustainability (2)

Debt management

Internal audit provided a “limited assurance” opinion on the Council’s debt management during 2021/22 (one of two such ratings during this year, the other relating to climate change). Internal audit noted that debt had increased substantially during the pandemic; from £560k in 2017/18, to £1.39 million in 2020/21, and recommended the Council urgently prioritise debt recovery to prevent financial loss, particularly as debt becomes harder to recover over time. As at December 2022 debt had reduced to £1.25 million, though this is still substantially above pre-pandemic levels. The proportion of debt aged over 6 months increased from 71% in December 2021 to 79% in December 2022. The Council reported that heads of service have been have been asked to review their outstanding debts and review processes for effective debt recovery.

Reserves

The Council’s total earmarked reserves reduced from £16.35 million at 31 March 2021 to £14.52 million at 31 March 2021. At just over 100% of net revenue expenditure this is less than half the relative balance of some other district councils. This balance includes a Collection Fund reserve, which stood at £5.72 million, compared to £9.81 million in 2021/22. This earmarked reserve was created to deal with timing impacts on the Collection Fund (Business Rates) and includes £4.52 million that the Council plans to use in in 2022/23 and 2023/24 to mitigate timing differences of business rate reliefs awarded in 2021/22, leaving £1.2 million protection against future volatility. Excluding the collection fund reserve, the Council added around £2.1 million to earmarked reserves, including adding £0.561 million to the budget management reserve, which had a balance of £0.936 million at 31 March 2022.

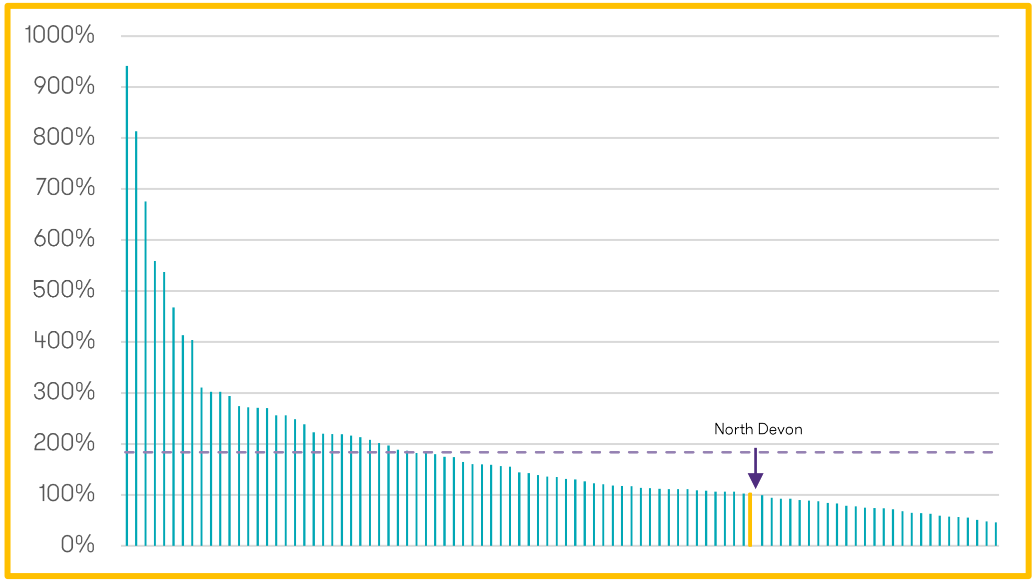
The Local Government Act 2003 requires that when a local authority is agreeing its annual budget and precept, the chief finance officer must report to it on the robustness of the estimates made for the purposes of the calculations; and the adequacy of the proposed financial reserves. As in 2020/21, the Council refers to a recommended benchmark of 5%-10% of the net revenue budget to determine the minimum General Fund reserve balance. This remains within that benchmark range with an unchanged balance of £1.211m equating to 8.9% of the 2021/22 net revenue budget as at 31 March 2022.

We recommended in our 2020/21 Auditor’s Annual Report that the Council undertake a risk based calculation for the prudent minimum level, reflecting the local and national risks that could impact in the budget and assess the Council’s exposure to risk. We also observed that the Council maintained a lower level of reserves than many comparable authorities. Analysis of the Council’s reserve position indicates that this continues to be the case.

As part of our work in 2021/22, the Council reported to us that it remains content that the level of reserves it has maintained are adequate. Nevertheless, as we shown on this page and on page 9, the financial context within which the Council is operating is increasingly challenging. Although the Council did not need to rely on the one-off use of reserves to balance its 2021/22 budget, it has identified the need to do so in 2022/23 in response to unexpectedly high inflation. We recommend that the Council explore with other councils, many of whom are maintaining higher relative levels of reserves, the adequacy of its reserve position, and stress-test its reserve levels against the risk of further, unknown budgetary “shocks” that may present at short notice, as well as ongoing, and known risks.

Figure 1: General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)

North Devon District Council has lower levels of General Fund and non-schools earmarked reserves than a majority of comparable local authorities



Note: Data are drawn from Grant Thornton CFO Insight data, and may not reflect the Council’s latest position or any changes in use of reserves since the data were captured.

Source: Grant Thornton CFO Insight data

Financial Sustainability (3)

Planning for risks to financial sustainability in 2022/23 and the medium term

The rising rate of inflation in the UK during 2022 has presented substantial risks and challenges to the Council, along with other local authorities. The Council has identified a number of risks to its ability to deliver a balanced budget in 2022/23 and has revisited the 2022/23 budget set in February 2022, and the MTFS, to account for several unforeseen additional costs.

In a paper presented to the Strategy and Resources Committee on 4 July 2022, the Council identified a range of risks arising from in-year inflationary pressures, highlighting upward pressure on staff pay, fuel and energy costs across a range of services. In total the Council estimated the additional costs attributable to inflation to be £711,000. Noting the urgency of the situation the Council developed a plan to work with Members over summer 2022, to develop options ahead of the 2023/24 Budget and, over the summer of 2022, the Council held cross-party workshops and developed a range of options for savings, and to generate additional income.

By November 2022, however, it was clear that inflationary pressures had increased further, with an estimated £1 million increase due to the impact of the staff pay award, and additional fuel costs across the Council's vehicle fleet. A revised MTFS was put to Full Council on 23 November 2022 proposing funding the immediate £1 million gap in 2022/23 using the budget management reserve, and mitigating a £200,000 forecast increase in temporary accommodation costs utilising balances from the Homelessness earmarked reserve. The Council noted that moving forward to 2023/24 and beyond, the Council would no longer have the benefit of the same level of protection from these reserves. In addition, the Council proposed a number of options to both reduce costs and increase income to address the budget gap of around £2m forecast for 2023-24, including:

- reviews of Car Parking charges (potentially raising £450,000), and Garden Waste charges (£90,000);
- a potential transfer of Public Conveniences to Town and Parish Councils (£240,000),
- increased capital acquisitions of property for use as Temporary Accommodation (to save on increasing bed and breakfast charges, saving £80,000), and
- a £175,000 reduction in contribution to earmarked reserves set out above.

In addition, the Council made several changes to key assumptions set within the 2022/23 budget, including: determining that the Fair Funding Review had been postponed and the assumption of a cash freeze in funding (£528,000); and growth in sale of Recycling materials income (£250,000).

The Council estimated that, if adopted, these options would reduce the 2023/24 budget by £1.9million against the projected budget gap of £2.001 million. However, as the Council notes, the gap is still likely to increase in future years, assuming that inflationary pressures result in a permanently increased cost base. It forecasts that the gap increases after 2023/24 to over £4.6 million by 2026-/7 (Figure 2). It is important that the council continues to develop and clarify its savings plans to address these gaps at an early stage.

Figure 2: Changes in forecast budget gaps, North Devon District Council: 2021/22 – 2027/28

Anticipated Budget Gap (£m)	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
February 2021 MTFS	0	2.270	2.785	2.890			
October 2021 refreshed MTFS	0	0.554	2.215	2.352			
February 2022 MTFS	-	0	2.070	2.286	2.595	3.220	3.141
Refreshed MTFS, November 2022*			2.001	2.235	4.045	4.670	4.591

Note: The Council's November 2022 refresh of the MTFS assumed 2022/23 additional inflationary pressures would continue into 2023/24 and beyond with minimal inflation reversal; an additional impact of further 2023/24 pay claim settlements (above 2% already factored into the original 2022/23 forecast); further National Living Wage implications, totalling an indicative amount of £450,000.

Source: Grant Thornton 2020/21 AAR for North Devon District Council and analysis of Council's Medium Term Financial Strategies

Financial Sustainability (4)

Monitoring the budgetary position

Routine monitoring of the budget is carried out through the quarterly performance and financial management report which are presented to the Strategy and Resources Committee and full Council on a quarterly basis. Our review of key performance reports to members indicates that the reporting on individual schemes that are expected to make major contributions (whether through generating savings or additional income) continues to be on an exception basis rather than a regular inclusion. The increasing risks to financial sustainability further reinforce the need for robust, ongoing monitoring and disclosure of the contribution of individual initiatives to the council's overall budget position, though ongoing changes to the Council's performance framework could address this (see page 21).

Consultation with stakeholders

Addressing future financial sustainability challenges may require the Council to develop further savings plans, or income generation measures, beyond those developed during 2022 and also beyond those envisaged under its existing budget and strategies, such as the 2019 Corporate Plan and the 2020 Commercial Strategy. As set out above, the Council held cross-party workshops as part of the recent MTFS refresh, to develop options to bridge inflationary gaps arising in 2022/23. Discussions with Parish Councils were also referenced around the proposed transfer of Public Conveniences from District Council control. However, there was no public engagement in advance of setting the 2021/22 budget and the Council told us that previous event had been poorly attended. For 2022/23 the Council told us it had taken a different approach, drawing on its North Devon Plus partnership to run an open a consultation which was open to a wide range of business and other stakeholders. The Council told us that this had seen much better attendance and promoted a better two-way exchange. It expects to repeat a similar event ahead of finalising the 2023/24 budget.

The Council could now build on the collaborative approach it took with Members in refreshing the 2022/23 budget in the summer of 2022, to leverage the power of stakeholder consultation and participation as it develops its medium-term savings plans. Stakeholders may be able to help identify priorities, target sustainable savings or identify and mitigate any adverse impacts on users' needs. We note that the consultation undertaken by the Council is relatively late in the budget-setting cycle (taking place in January or February when the budget is usually approved in February each year). We therefore recommend the Council engage the public and wider stakeholders more at the 'design' stage of future budgets.

Conclusion

We did not identify any weaknesses with the Council's arrangements for ensuring financial sustainability in 2021/22 and, overall, we consider that the Council has made appropriate arrangements to develop plans to address both its short-term and longer-term financial risks, despite evidence of some planned one-off use of reserves to meet inflationary pressures in 2022/23 not anticipated at the time of setting the 2022/23 budget. Work ongoing during Summer and Autumn 2022 indicate that the Council has further developed its understanding of the financial gaps it may now need to address in the short and medium-term, taking into account acknowledged, ongoing areas of uncertainty in future government funding and policy.

Despite this, it is also clear the Council now faces an increased risk of significant financial sustainability challenges in 2022/23 and beyond.

We make two improvement recommendations to support the Council in developing robust, sustainable savings plans and monitoring progress toward bridging forecast gaps, covering:

- exploring the adequacy of its reserve levels and stress-testing those against a range of scenarios to identify the levels that would lead to the draw to reserves becoming unsustainable, and considering the range of events that might lead to this happening; and
- engaging the public and other stakeholders earlier in the budget cycle to help identify and target savings and spending plans, and assessing their impact on partners and service users at an early stage.

Improvement recommendations

Financial sustainability

Recommendation 1	The Council should engage the public and wider stakeholders earlier in developing future budgets and medium-term savings plans, and collaborate with the local partners and stakeholders to co-design sustainable savings plans.
Why/impact	Consultation and engagement with external stakeholders will be useful as the Council develops options to address budget gaps forecast particularly if there are potential changes to services, fees and charges that affect residents and stakeholders.
Summary findings	The Council consulted members in developing options as part of the recent MTFS refresh. However, there was no public engagement in advance of setting the 2021/22. Better engagement with stakeholders was achieved in consultation on the 2022/23 budget by leveraging the North Devon Plus partnership, though this was undertaken relatively late in the budget cycle.
Management Comments	The recent budget consultation and business support events have been successful and well attended and we will continue to engage with these. We will also identify other sources of consultation such as online opportunities to engage with the public as part of developing future budgets.

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

Improvement recommendations

Financial sustainability

Recommendation 2	We recommend the Council explore the adequacy of its reserve levels consulting with other councils that are maintaining higher levels, and stress-testing its minimum reserve levels against a range of scenarios, to identify the levels that would lead to the draw to reserves becoming unsustainable, and consider the range of events that might lead to this happening.
Why/impact	While the Council is content that its general fund reserve level is adequate, they are lower than some comparable authorities which may reduce the Council's ability to respond in-year to further financial shocks. The Covid-19 pandemic and the levels of inflation experienced during 2022 demonstrate that unexpected events (where the risk and its impact can be inherently hard to identify and mitigate) can and do happen. Identifying the draws on reserves that would breach sustainable levels over a one, two and three year period, and the scenarios that might lead to these, would enhance the Council's oversight of its resilience and readiness, from a financial perspective, to respond to future emergencies.
Summary findings	The Council is planning to use reserves to meet its budget gaps in 2022/23, following unexpectedly high levels of inflation during 2022, which significantly increased some of the Council's core costs, such as energy, fuel and staff pay (pages 8 to 10, above).
Management Comments	The use of the budget management reserve was prudently set up for the purpose of mitigating inflationary pressures and reductions in revenue income and was a one off use within the 2022/23 year. We will continue to monitor the level of reserves moving forwards against indicators such as the CIPFA Financial Resilience index.

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

Internal control

As in 2020/21, Internal Audit was undertaken by the Devon Audit Partnership (DAP), a shared service arrangement between participating councils including North Devon District Council.

For 2021/22, the Internal Auditor's overall conclusion was that the Council had a generally sound system of governance, risk management and control in place – a "reasonable assurance" opinion – which is unchanged 2020/21.

During the year DAP undertook 18 audits, representing 88% of its planned work. A small number of audits were cancelled or deferred to 2022/23 including the core audit of Council Tax and Housing Benefits, which were deferred at the Council's request into 2022/23. It is of course important that the these areas are addressed in the current (2022/23) year. Of the 18 reports completed, these, the majority (14) provided reasonable assurance, and two provided "substantial assurance" (the highest level). Two reports provided limited assurance. One, on debtors, highlighted some issues related to the monitoring and recovery of council debts, which have been impacted by diversion of resources to grant support and other activity arising from the Covid-19 emergency (see page 8). The second, on climate change, noted that the Council did not yet have a climate change strategy or KPIs in place, despite declaring a climate emergency in 2019.

The Governance Committee receives Audit Recommendation Trackers at each meeting that cover internal and external audit recommendations and progress on the Action Plan set out in the Council's Annual Governance Statement.

Maintaining standards

The Council has codes of conduct for both Officers and Members. The Codes both refer to the 7 'Nolan' principles of public life. The members' code of conduct is dated August 2021, and the employees' code of conduct is dated October 2020. The Code of Conduct for employees makes appropriate reference to other key policies, such as the Whistleblowing policy.

Some of the information on the Council's website does not reflect the status of key policies. For example, the Council approved an updated Whistleblowing policy in June 2021 but the version on the Council's website as at December 2022 was the previous dated August 2020, containing contact details for the previous Monitoring Officer. An old version of the Anti-fraud, bribery and corruption policy was also linked (dated December 2018, when the Governance Committee approved an updated policy in June 2021). There is no evidence that this has led to any adverse outcomes but up-to-date public information on governance is important to demonstrate good governance to the public and to ensure in particular that that any whistleblowing concerns can be raised promptly with the Monitoring Officer.

During our 2020/21 audit we noted that the Monitoring Officer was not a part of the SMT. The Monitoring Officer confirmed this year that he attends 6-weekly 'statutory officer' meetings with the Chief Executive, Deputy Chief Executive, and Head of Governance. There are, however, currently no standing agenda items or minutes kept of these discussions. We therefore recommend these are kept so that there is greater evidence of the effectiveness of these meetings in ensuring the Monitoring Officer is informed of any relevant events in a timely manner.

Governance (2)

Risk management

The Governance Committee considered the corporate risk register in March 2021. The September 2021 meeting of the Committee did not achieve a quorum, meaning it did not review the Register again until November 2021. However, there is no evidence this led to any significant gaps in the Committee's consideration of risk. The Committee resolved in March 2022 that the Corporate Risk Register be added to its work programme on a quarterly basis, rather than 6 monthly.

The Council has recently adopted a new Risk Management Framework and Corporate Risk Register. The Council is now in the process of adopting a new framework designed to reduce the 20 to 30 corporate risks and make clearer the linkages between corporate-level and service-level risks, in line with internal audit recommendations. As part of this refresh the Council has also designed a refreshed risk escalation process which seeks to provide a clearer route for risks identified at operational levels to escalate to service-level or corporate-level risks for consideration by the Senior Management team and/or the Governance Committee, with Heads of Service required to provide quarterly assurance that the process has been followed and all risks reviewed.

Budget Setting and monitoring

The Authority has an established process in place for agreeing its budget each year. The budget-setting process was considered and approved by full Council in February in 2021 and 2022, ahead of the 2021/22 and 2022/23 financial years, respectively. The budget and MTFS are considered and approved at the same time during February. The Council's MTFS is incorporated into the budget report and considers a current year-plus-five-year time horizon. The Council has been proactive in refreshing its budgetary assumptions and the MTFS in response to emerging events during the Summer and Autumn of 2022.

Monitoring against the agreed budget is enabled through quarterly performance and financial management reports, which are presented to the Policy Development Committee, Strategy and Resources Committee and Full Council on a quarterly basis. Quarterly performance and financial management reports, provided to the Strategy and Resources Committee and to Full Council, are the main, regular source of strategic performance and financial information provided to Members. The financial information in these reports provides a good level of detail on progress in delivering a balanced budget, including revenue and capital control, and movements in reserves, both within the quarter and over the year as a whole. Narrative information is supported by detailed appendices covering each of these areas of focus. The reports also cover Treasury Management and debt management. The Strategy and Resources Committee and Full Council received an annual report on Treasury Management in July 2022.

We highlighted in 2020/21 the need for robust monitoring of the contribution of individual savings and/or income-generation schemes to bridging budget gaps, as well as whether the individual schemes were meeting their stated objectives. Our review of key performance reports to members, however, indicates that the reporting on individual schemes continues to be on an exception basis. The increasing risks to financial sustainability further reinforce the need for robust ongoing monitoring of the contribution of individual initiatives to the overall budget position and, in this context, we note that the Council is currently implementing a new performance framework, as part of the wider changes it has implemented to its governance and structures in recent years. These changes include: reorganising its management of strategic and operational activities under 5 core programmes; Refreshing its Senior Management Team (SMT) including recruiting several new Heads of Service to lead those programmes; and Setting up a new Programme Management Office to oversee delivery, and help to integrate programmes. Following on from these changes, the Council is currently revising its performance reporting framework and associated Key Performance Indicators, with the aim of aligning performance reporting to its five core programmes. This review has been led by the head of the Programme Management Office, who is a long-serving senior officer within the Council and now member of the SMT. We comment further on the non-financial aspects of performance reporting on page 21.

Governance (3)

Informed decision-making: approving and monitoring major investments under the Commercial Strategy

As part of our review of the Council's governance arrangements we considered whether the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. The Council's commercial activities continue to be a key area of development and in our Auditor's Annual Report covering 2020/21, we noted the importance of ensuring robust, transparent monitoring arrangements were in place to ensure Members are adequately sighted on how schemes perform against expectations.

In November 2021 the Council completed the £11 million purchase of the Green Lanes Shopping Centre in Barnstaple. We found that the council had developed a business case for purchasing the Centre as a retail concern and took appropriate advice to inform its valuation and bid to purchase the Centre. The Council's business case considered the revenue implications of its purchase on its finances on a year-by-year basis and Centre provided a net positive revenue return to the council in 2021/22. The Council did not, however, include a full "value-for-money" assessment which took account of the potential full-lifecycle costs and benefits, including the Centre's capital value or the wider regeneration benefits the Council considers its ownership of the Centre should deliver over the longer term. We set out further detail on this on the following page (page 16)

Background and context

In November 2020, the Council adopted a commercial strategy that set out the its aim to *"become an enterprising and commercially focused Council which [...] will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the District [and] generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2023/24."*

During 2021/22 the Council approved and completed the £11m purchase of the Green Lanes shopping centre in Barnstaple (the Centre). This was a significant investment for the Council. The costs of this project included the eventual £8.2million acquisition price, and a budgeted £1.5million for capital repair and enhancement works to the centre, along with associated legal and associated advisory and transaction costs. The decision to purchase the Centre was approved by Full Council at an extraordinary meeting in June 2021, with the purchase completed in November 2021.

Commercial investment by local authorities has been under increasing scrutiny from HMT Treasury and CIPFA. The Public Works Loan Board (PWLB) introduced new lending terms from November 2020 supporting borrowing for housing and regeneration projects, which prevent Councils accessing PWLB funding for investments purely for yield. CIPFA, through the revised prudential code published in December 2021, have confirmed that commercial investments funded from borrowing are not regarded as prudent activity for councils to undertake.

Given the scale of the investment relative to the Council's size, and the risks set out above, we considered whether the arrangements in place to approve the purchase of the scheme were adequate and particularly: whether the Council's analysis indicated the project was affordable, and whether it had due regard to value for money within the decision making process. This involved considering whether the costs, risks and benefits of the purchase were analysed and presented clearly and transparently in the scheme business case and approval papers, to allow Members to make an informed, risk-based decision on whether to proceed. We do not form a judgement on the merits of the investment decision itself, or conclude on the performance of the scheme at this stage (see Appendix B).

Governance (4)

Approving and monitoring major investments under the Commercial Strategy (cont.)

Strategic investment case

The Council, in its application for PWLB funding, made clear that it considered the Centre a strategic asset that complemented the Council's wider town centre Regeneration funded by the Future High Streets Fund (FHSF). It set out that controlling this asset would allow it to 'promote a vibrant town centre that our community benefits from and the local residents and visitors want to visit and enjoy, together with controlling and creating opportunities for businesses and employment.' In its submission to members requesting approval to purchase the Centre (referred to here as 'the Business Case'), the Council identified that its ownership of the Centre would deliver a financial return from the retail concern but also wider regeneration benefits including through potential partnerships with other public service providers. However, officers had not at that stage set out how the Centre would contribute to regeneration objectives or how these would be measured. Given the Council's longer term aims, and the stipulations set out in the Prudential Code, it is important that the Council sets out its objectives and how it intends to measure the Centre's contribution to its wider regeneration objectives.

External advisers

The Council engaged a range of external advisers to support it on specific aspects of the deal:

- property consultants advised on retail aspects (such as the current and possible future value of leases for individual units) and supported the valuation of the Centre. This was important as in cases, such as this, where there is only one seller (a monopoly) and one buyer (a monopsony) market prices may not accurately represent an asset's value. The analysis presented clearly informed the Council's valuation of the centre and its successful bid.
- a surveyor to advise on the condition of the property and likely repair and other capital works required, which identified that around £1.5 million of works might be required over a five-year period. Again, this figure was clearly factored into the Council's assessment of its capital requirement, and
- solicitors to advise on the legal aspects of the deal

Assessment and appraisal of investment options

The Council presented, within its business case, a clear narrative consideration of the risks associated with purchasing the Centre, and also not doing so (effectively a "do nothing" option). There was, however, no explicit comparison of the possible costs and benefits of alternative options. An appraisal of different options is a key part of assessing the value for money of a proposed course of action and in this case, a comparison of the costs and benefits of potential alternative courses of action including not purchasing the Centre might have been appropriate. Our discussions with the Council indicate, however, that officers considered it too early to formally appraise alternative options at that stage.

The Council should continue to develop the business cases as it sets out more clearly the regeneration impacts it expects to deliver and how these will be measured. This should include the impacts on the wider local economy as well as just the Council and the Centre itself, because regeneration in one local area can have both positive and negative effects on the wider economy. For example, future development of the Centre might boost retail and other income, such as car parking within the Barnstaple area, but might displace similar economic activity elsewhere, so considering the overall net costs and benefits will be key. The Council engaged external consultants to support development of cost-benefits analysis ahead of its successful bid to the Future High Street fund in 2021.

Similarly, a full-lifecycle assessment of the economic costs and benefits of the purchase was not developed for the business case. A business case should include a 'value for money' assessment (also known as an 'economic assessment'). The purpose of the VFM assessment is to assess the project's total costs and benefits over its whole lifecycle and unlike the financial viability assessment is presented in present value terms. It should include capital investment required (only the first five years' costs have current been ascertained so far) and the residual value of the asset (or liability) created at the end of the project. The latter is relevant in this case given uncertainty about the future of the retail sector may impact the Centre's future value: the market value of the Centre has already declined considerably over the previous few years from an asking price of over £30 million to the £8.2 million the Council paid in 2021.

Governance (5)

Financial viability and affordability

The financial information presented in the business case indicated that the project was affordable, in cash terms, year-on-year, up to 2040. The analysis presented a range of potential net income figures, allowing for the eventual cost of borrowing, asset management and a degree of fluctuation in rental income.

As with the analysis of options, the Council considered it was too early to assess how it might develop the Centre in the future and what capital investment might be required - this will also need to be considered in due course.

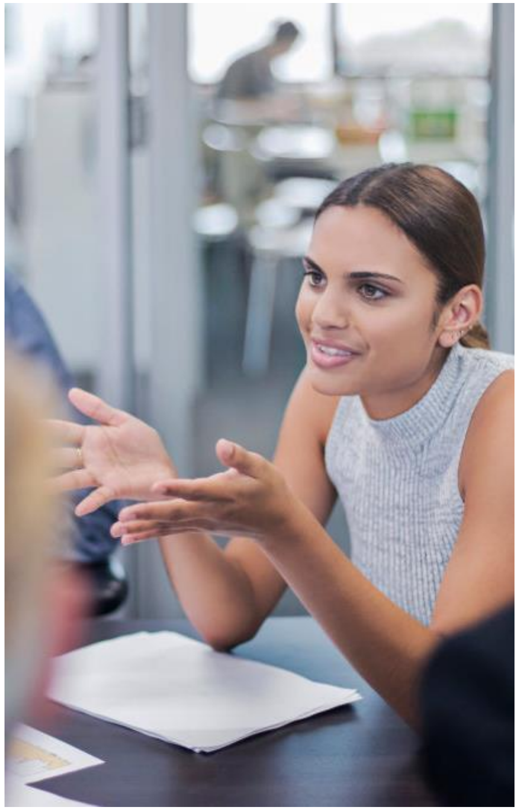
In 2021/22, the Council recorded a net income of £243,000 from the Centre. The Council's draft budget for 2022/23 included the revenue implications from the Green Lanes Shopping Centre, setting out a projected net income of around £343,530 after borrowing and asset management costs (but not including the costs of any capital investment and maintenance).

Conclusion

Overall we found that during 2021/22 the Council maintained appropriate arrangements to gain assurance over its system of internal control, had effective budget monitoring, and had adequate arrangements in place to monitor its adherence the standards expected of officers and members. The Council is embedding its new programme-led structure and this is informing important refreshes of its processes for performance and risk monitoring. These changes, when embedded, should allow the Members Council to enhance their focus and scrutiny of progress towards strategic priorities. We recommend that the Council ensures its work to maintain up to date policies and procedures to maintain high standards is better-evidenced, by setting out a terms of reference and minutes/action notes for its Statutory Officers' meeting, and by ensuring up-to-date versions of key policies are accessible on its website.

We consider that the Green Lanes investment highlights some areas where the Council could improve the information presented for decision-making in relation to major investment decisions. Specifically, it should enhance the focus on the long-term value for money of these initiatives as they develop, alongside consideration of year-on-year revenue implications and impact on the Council's financial sustainability. We recommend the Council make clear how it will measure progress towards the wider strategic and regeneration objectives discussed in its business case. As it does so, it should develop a its business case setting out a fuller analysis of value for money, risks and opportunities.

Improvement recommendations



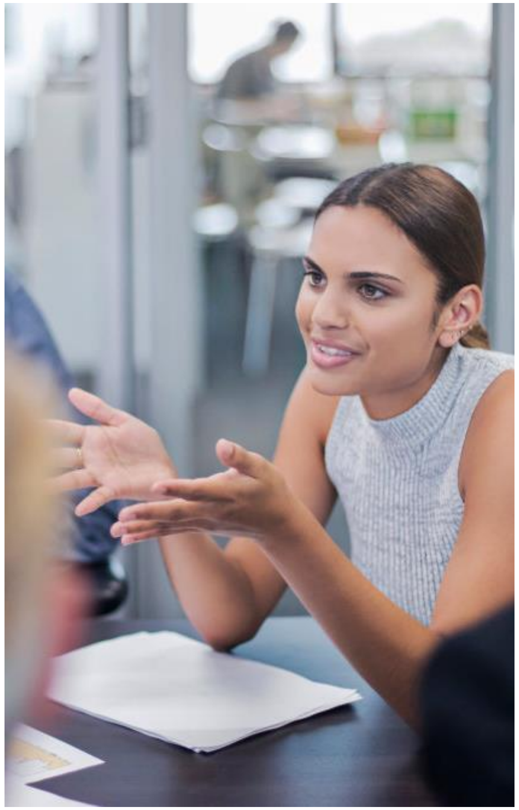
Governance

Recommendation 3	The Council should make clear how it will measure progress towards the wider strategic and regeneration objectives discussed in its business case. As it does so, it should develop a its business case setting out a fuller analysis of value for money, risks and opportunities including: • a full-lifecycle view of costs and benefits, making clear any key uncertainties or assumptions underpinning its analysis, • consideration of the capital asset (or liability) created by the centre's purchase, and • the economic impact of decisions on other stakeholders and the wider local economy.
Why/impact	Good value for money decision-making involves assessing the long-term impact of decisions on residents, other stakeholders and the wider economy, as well as the Council's own finances. As the Council develops its longer term regeneration plans , a clear view of the overall costs and benefits will be required.
Summary findings	The Council's business case for purchasing the Centre did not contain an assessment of the wider costs and benefits of the purchase. Our findings are set out on pages 15 – 17.
Management Comments	When the business case for acquiring the Centre was produced, which included financial modelling up to 2040; the intention as set out was acquiring the Centre as a going concern as retail with the associated costs and benefits clearly shown; and at this stage Officers considered it too early to formally appraise alternative future options that differed from this strategy. However, we continually keep this under review and work closely with our Asset Management company, Praxis Real Estate Management who will be presenting an update on Green Lanes Shopping Centre to our Councillors at the meeting of Strategy and Resources Committee on 6 March 2023. This update will focus on the current and longer term plans for the Centre and will be reviewed on an ongoing basis.

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

Improvement recommendations

Governance

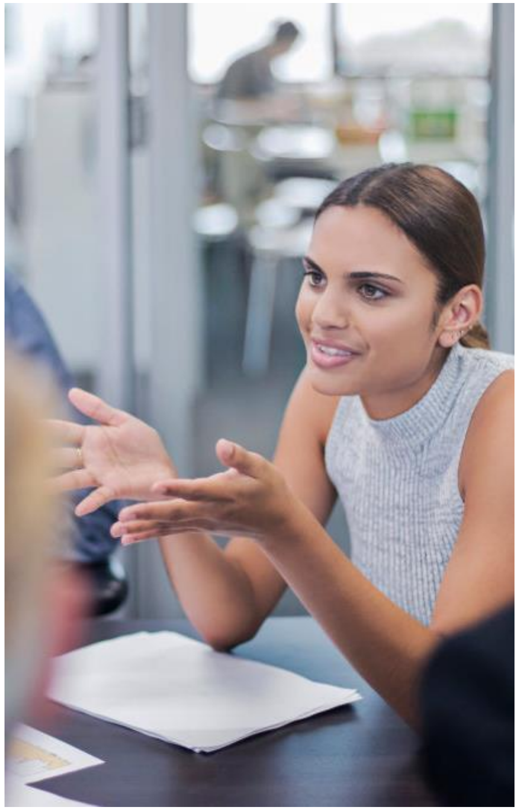


Recommendation 4	The Council should refresh its website with the current versions of the anti-fraud, bribery and corruption, and Whistleblowing policies and ensure these are regularly updated.
Why/impact	Up to date public information on governance is important to demonstrate good governance to the public and that any whistleblowing concerns can be raised promptly to the appropriate officer.
Summary findings	Some of the information on the Council's website does not accurately reflect the status of key policies that the Council has adopted to support good governance, and the most recent versions of current policies are not linked (page 13)
Management Comments	Agreed, we will update the website with current versions of policies.

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

Improvement recommendations

Governance



Recommendation 5	The Council should establish terms of reference and keep minutes or action notes from its Statutory Officers meetings.
Why/impact	Improving the formal governance of the statutory officers forum will ensure greater evidence of their effectiveness as a tool for ensuring the Monitoring Officer is informed of any relevant events, and support accountability should any incidents occur.
Summary findings	During our 2020/21 audit we noted that the Monitoring Officer was not a part of the SMT. The Monitoring Officer confirmed this year that he attends 6-weekly 'statutory officer' meetings with the Chief Executive, Deputy Chief Executive, and Head of Governance. There are, however, currently no standing agenda items or minutes kept of these discussions.
Management Comments	Agreed, we will incorporate an agenda and minutes for these meetings.

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

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Performance management

Quarterly performance and financial management reports provided to the Policy Development Committee, Strategy and Resources Committee and to Full Council are the main, regular source of strategic performance and financial information provided to Members.

As noted on page 14, the high level narrative in these reports provides a good level of detail on financial performance. However, coverage of non-financial performance is more limited, although the Council's Key Performance Indicators (KPIs) are set out in a the detailed annex to the main report.

The KPI reports annex sets out quarterly performance against each indicator, with equivalent performance in the same quarter in the prior year provided for comparison purposes. Overall annual performance is also included, once sufficient information is available. On review we also noted that, for some KPIs, where performance was expressed as a percentage (such as the recycling rate) annual performance level had been calculated as an average of the percentage performance over the four quarters. This risks providing a misleading picture of annual performance as the volumes will likely vary each quarter.

We noted in 2020/21, however that indicators and performance are not Red-Amber-Green (RAG) rated and there is no narrative in the covering report on overall performance or areas of concern where performance is below target. This system remained in place throughout 2021/22.

However, the Council is currently implementing a new performance framework, as part of the wider changes it has implemented to its structure in recent months, including:

- Refreshing its Senior Management Team (SMT) including recruiting several new Heads of Service to lead those programmes; and
- reorganising its management of strategic and operational activities under 5 core programmes; and

Setting up a new Programme Management Office to oversee delivery, and help to integrate programmes

Following on from these changes, the Council is reviewing its performance reporting framework and Key Performance Indicators, aligning performance reporting with its five core programmes. This review has been led by the head of the Programme Management Office, who is a long-serving senior officer within the Council and now member of the SMT. We have reviewed the outputs being developed through this exercise and note that they Highlight Report will underpin a refreshed approach to regular reporting of KPIs to Members, including a greater level of non-financial information to that reported currently.

As part of this, there is an opportunity to identify any KPIs (particularly those where the underlying indicator might be shared across more than on authority) where benchmarking performance as well as unit cost would generate deeper insight into the Council's own performance, particularly given the Council does not currently undertake regular, formal benchmarking (page 22, below)

Improving economy, efficiency and effectiveness (2)

Benchmarking of costs

As part of our work, we have benchmarked the Council's total net expenditure by service on a unit cost basis with statistical near-neighbour Councils. This shows that the Council has relatively low cost when compared to Councils across most service areas. The exception to this is environmental services where costs remain higher than comparable authorities (see commentary on the waste and recycling service, below).

Benchmarking is a powerful tool to promote scrutiny of the Council's cost base. We recommended in 2020/21 that Council consider benchmarking to generate additional insights into its spending, but we note it still does not routinely undertake formal benchmarking against comparable authorities. The Council considers that the insight it might draw from formal benchmarking is limited because of differences in the recording of data between different authorities. We consider, however, that exploring reasons for variances, particularly where they are marked, is good practice. As set out on page 21, there is an opportunity to explore benchmarking performance as well as unit cost, which, combined with cost benchmarking, could generate deeper insight into the Council's performance and identify areas for improvement. The Council does undertake some benchmarking for specific pieces of work, for example: as part of its review of car parking charges undertaken as part of its 2023/24 budget considerations, when the Council considered its proposed, increased rates against the rates set by neighbouring authorities.

Trends in key services

The Council's waste and recycling service has historically been an area of challenge in terms of performance and cost. During 2022 a long-running trial of 3-weekly residual waste collection was brought to a close without a clear resolution. The Council is not currently moving towards 3-weekly collection but this remains an aspiration. Alongside vehicle and staffing costs, the Council has identified ageing equipment at its materials recovery facility as negatively impacting the efficiency of the service. In November 2022, Full Council approved a £2,659,000 increase to the £741,000 already in the capital programme forecast to undertake a range of process hall and site infrastructure improvements and replace baler equipment at the site. The Council estimates that the revenue cost implication will be between £180,000 and £228,000 per year depending on interest rates and borrowing term, and which the Council expects will need to be factored in from the 2024/25 financial year.

We note that the Quarter 2 Performance and Financial Report presented to the Strategy and Resources Committee did not contain a 2021/22 annual outturn figure against the recycling target of 46%. Quarterly performance was reported as above 46% in Quarters 1 – 3, but below in Quarter 4. We note that the annual outturn figure for 2020/21 outturn figure of 48.78% reported to the Strategy and Resources Committee is calculated as an average of the four quarterly percentage figures . There is an opportunity as part of the Council's review of its KPIs to review the basis of calculation and standard reports, to ensure no anomalies such as this are rolled forward into revised reporting frameworks.

Cost pressures are also growing in the Council's Housing and Homelessness service area. In November 2022 the Council noted a strategy to purchase additional properties to alleviate pressure on temporary accommodation costs management which it estimates could save around £8,000 – £10,000 per property, per annum compared bed and breakfast accommodation. In the shorter term, however, the Council proposes to meet additional forecast additional cost pressures of £200,000 in 2022/23 using balances from the Homelessness earmarked reserve (page 9).

Standard revenue outturn service block	Relative position in 2022/23 compared to statistical near-neighbours
Housing Services	VERY LOW
Environmental & regulatory	VERY HIGH
Planning & development	VERY LOW
Highways & transport	VERY LOW
Cultural & related	LOW
Central services	AVERAGE

Improving economy, efficiency and effectiveness (3)

Partnership working

As we set out in 2021/22, the Council participates in a wide range of local partnerships and has a track record of working with working with strategic partners to develop strategies and translate those into actions for the Council to deliver. Its partnerships cover, for example: regeneration and economic development, planning, procurement, and leisure: The Council's new Tarka Leisure Centre, operated on a design, build, maintain and operation contract with Parkwood Leisure, opened to the public in June 2022. The Council leveraged its North Devon Plus partnership to improve attendance and engagement with its budget consultation ahead of setting the 2022/23 budget.

Conclusion

We have not identified any significant weaknesses in the way the Council's arrangements for improving economy, efficiency and effectiveness in 2021/22. The Council maintained adequate arrangements to monitor its performance, including within key partnerships. The Council is working to align reporting on key performance indicators to its core, strategic programmes and to increase the level of non-financial reporting in its core performance updates to members, in line with wider changes to its governance, including aligning key projects under five core programmes. When implemented, these changes should significantly improve non-financial performance report compared to the systems in place during 2021/22. To maximise the benefits of this work we recommend that in developing its new performance framework and KPI suite, the Council should:

- review the quality assurance processes in place underpinning the data systems and calculations underpinning key performance reports, and
- identify opportunities for performance, as well as cost benchmarking with comparable local authorities.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 7	In developing its new performance framework and KPI suite, the Council should: • review the quality assurance processes in place underpinning the data systems and calculations underpinning key performance reports, and • identify opportunities for performance, as well as cost benchmarking with comparable local authorities.
Why/impact	The Council is close to implementing a new performance reporting system to key Committees and good quality data and analysis are vital to effective and accurate reporting, to allow for robust, timely scrutiny of performance.
Summary findings	While the Council undertakes informal cost benchmarking when considering specific changes, it does not currently undertake formal cost or performance benchmarking with similar authorities to identify opportunities for improvement. We identified some calculation issues in the way annual performance was reported for some indicators, which could lead to misleading information being presented to members (see page 21)
Management Comments	Agreed. The Head of Programme Management and Performance will review the data source, calculation and outputs from the indictors; and continue to pursue collaboration opportunities and sharing of intelligence to drive forward improvements. NDC have already participated in a Local Government Association Roundtable event and a workshop organised by our Internal Auditors with other Devon Authorities.

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

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	As savings schemes become more prominent in the MTFS, budget monitoring should include a savings tracker to inform Members on the progress made in achieving savings plans relevant to balancing future years.	Improvement	January 2022	The Council is implementing a new corporate performance reporting system based around its key programmes, which is designed to ensure reporting is aligned to the Council's key priorities	Yes	No
2	The Council should increase its financial planning timeframe to current year plus five in accordance with best practice.	Improvement	January 2022	The 2022/23 Medium Term Financial strategy is set out on a current year plus-five basis	Yes	No
3	Budget monitoring and outturn reports should contain more detail on the reasons for capital programme slippage when Members are asked to approve reprofiling to future years.	Improvement	January 2022	Capital variances are accompanied by brief descriptions of the reason for the variance in recent financial and performance reports	Yes	No
4	The Council should undertake a risk based calculation for the prudent minimum level of General Fund (GF) balances.	Improvement	January 2022	The Council considers that the level of reserves is adequate	No	Yes We recommend the Council stress-test its minimum reserve levels against a wider range of scenarios to identify the levels that would lead to the draw to reserves becoming unsustainable, and consider the range of events that might lead to this happening (page 12)
5	The frequency that the Corporate Risk Register is reported to the Governance Committee should be increased to quarterly, risks should be mapped to corporate objectives and only red RAG rated risks should be included.	Improvement	January 2022	The Governance Committee has resolved to receive the corporate risk register quarterly. The Council is implementing a new risk management framework including a streamlined corporate risk register and a refreshed risk escalation process.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	The Monitoring Officer should attend all Senior Management Team meetings.	Improvement	January 2022	The Monitoring Officer does not attend SMT but attends 6-weekly statutory officer meetings with the Chief Executive, Deputy Chief Executive, and Head of Governance.	No	Yes We have made an improvement recommendation to set an agenda and keep minutes kept of these discussions (page 20)
7	Additional analysis should be provided in budget monitoring to report the net cost of the pandemic, or other non-recurring costs in the future, along with other non-pandemic related variances that together make up the net revenue position.	Improvement	January 2022	The Council considers that the need for this reporting has become less relevant over time.	No	No
8	The key performance indicators (KPIs) reported to Members should be RAG rated to easily identify trends in performance and should be supported by a commentary in the covering report as to the overall performance of the Council and particular areas of concern.	Improvement	January 2022	The Council is implementing a new corporate performance reporting system based around its key programmes, which is designed to ensure reporting is aligned to the Council's key priorities	Yes	No
9	The Council should consider the need for a Data Quality Policy.	Improvement	January 2022	Not yet addressed	No	Yes We have recommended the Council review the quality assurance processes in place underpinning the data systems and calculations underpinning key performance reports (page 24)
10	The Council should undertake benchmarking with other local authorities to identify areas for financial or performance improvement.	Improvement	January 2022	The council does not regularly undertake formal benchmarking but it does consider relevant comparators when considering specific changes (such as changes to fees and charges)	Partly	No

Opinion on the financial statements

Audit opinion on the financial statements

We gave an unqualified opinion, or we qualified the opinion on the Council's financial statements on 30 November 2022.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Governance Committee on 26 September 2022.

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. We are awaiting NAO guidance in this area.

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.

Issues arising from the accounts:

There were no significant issues arising from our audit of the Council's financial statements.

There were a small number of adjustments made to the draft financial statements as part of the audit, non of which were significant.

In our Audit Findings Report we identified two control weaknesses against which we made recommendations for improvement.

The first related to the retrospective review of journals under £10k not operating as designed, as it did not include accruals. The Council agreed to ensure these are covered as part of the ongoing control. Our detailed testing of journals identified no issues.

The second was in respect of bank reconciliations not being fully reconciled for the entire financial period. The year end bank reconciliation was fully reconciled, however on other months unreconciled differences ranging from £5k to £20k were noted. This was due to software issues. We recommended that the Council fully reconcile cash balances each month and this was accepted. We increased the level of testing on cash balances in response to this finding and our work identified no issues.

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

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.

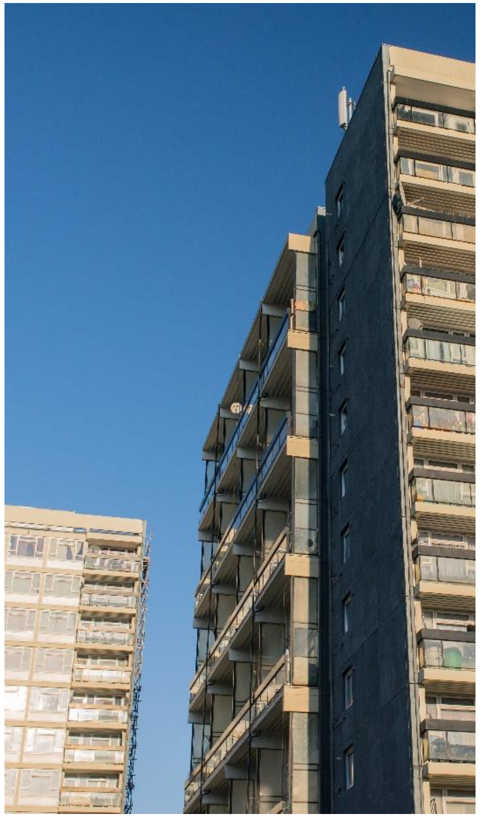
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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
We identified the council's commercialisation strategy as an area in which there was a significant risk the council did not have proper arrangements to deliver value for money. The strategy is a key area of development and, in our 2020/21 audit of the council's VFM arrangements we identified the need to ensure members are adequately sighted on how each scheme performs against its business case.	We considered the arrangements in place to support the development and scrutiny of the November 2021 purchase of the Green Lanes shopping centre, which was a major capital investment undertaken in line with the commercialisation strategy. This included • a desk review of the council's approvals papers and supporting analyses. • an interview with Jon Triggs, Director of Resources and S151 Officer We benchmarked the key outputs against established good practice, including HM Treasury guidance on Better Business Cases and the Green Book, which contains guidance and good practice on pre-investment appraisal and is widely known across the public sector.	Our findings are summarised on pages 15 and 17	We have made an improvement recommendations to support the council in developing its arrangements for informed decision-making as it develops its (see page 18)

Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	n/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	n/a
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	11-12; 18-20; and 24

Appendix D – Sources of evidence

Staff involved

- Ken Miles, Chief Executive
- Jon Triggs, Director of Resources and Deputy Chief Executive, Chief Finance Officer
- Simon Fuller, Monitoring Officer
- Nina Lake, Head of Programme Management and Performance

Key Documents Reviewed

- Officer Code of Conduct
- Members' Code of Conduct
- Whistleblowing Policies
- Anti-Fraud, Bribery and Corruption Policies
- Budget 2022/23 & Medium Term Financial Strategy (MTFS) Report
- Budget 2023/24 and Medium Term Financial Strategy Refresh
- Quarterly Performance and Financial Management reports, Q1 2021 to Q3 2022
- Treasury Management Strategy Statement 2022/23
- Annual Treasury Management Reports 2020/21 and 2021/22
- Internal Audit Annual Report 2021/22 and Internal Audit Plan 2021/22 and 2022/23
- North Devon District Council 2021/22 Annual Governance Statement
- North Devon District Council 2021/22 Statement of Accounts

Documents Reviewed (cont.)

- Minutes of the
  - Council;
  - Strategy and Resources Committee;
  - Policy Development Committee;
  - Governance Committees, February 2021 – November 2022
- Approval Papers and appendices relating the to the June 2021 decision to purchase the Green Lanes Shopping Centre
- KPI highlight report
- Revised risk framework papers
- Approval papers relating to decision to purchase the Green Lanes shopping Centre in June 2021
- Local Government Association LGA Corporate Peer Challenge Refresh, North Devon Council 23 September – 8 October 2021 Feedback report

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