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West Devon Audit Committee

West Devon Borough Council

Title:	**Agenda**
Date:	**Tuesday, 13th October, 2020**
Time:	**2.00 pm**
Venue:	**Via Skype**
Full Members:	***Chairman*** Cllr Davies ***Vice Chairman*** Cllr Vachon *Members:* Cllr Ball, Cllr Bridgewater, Cllr Renders, Cllr Ridgers, Cllr Yelland
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Democratic.Services@swdevon.gov.uk

PART TWO – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED (if any).

The Committee is recommended to pass the following resolution:

“**RESOLVED** that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the Meeting on the grounds that exempt information may be disclosed as defined in the paragraph given below in bold type from Part I of Schedule 12(A) to the Act.”

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At a Meeting of the **AUDIT COMMITTEE** held remotely by Skype, on **TUESDAY** the **21st** day of **July 2020** at **10.00am**

Present: Cllr M Davies (Chairman)
Cllr P Vachon (Vice Chair)
Cllr K Ball
Cllr M Renders
Cllr P Ridgers
Cllr J Yelland

Officers in attendance:
Section 151 Officer
Internal Audit Manager
Head of Finance
Chief Internal Auditor
External Auditor
Chief Executive
Director of Place and Enterprise
Head of Strategy and Projects
Head of Environmental Health & Licensing
Senior Case Officer – Democratic Services

Also in attendance: Cllr C Edmonds, Cllr N Jory

Apologies: Cllr A Bridgewater

***AC 5 ITEMS REQUIRING URGENT ATTENTION**

The head of Environmental Health & Licensing gave a verbal update on Health & Safety reporting, particularly in relation to COVID-19. Work place inspections and infection controls are being reviewed on a regular basis.

*** AC 6 CONFIRMATION OF MINUTES**

The Minutes of the Committee Meeting held on 23rd June 2020 were confirmed and signed by the Chairman as a correct record.

***AC 7 DRAFT STATEMENT OF ACCOUNTS 2019/20 AND DRAFT ANNUAL GOVERNANCE STATEMENT 2019/20**

Cllr Edmonds took members through the report.
He finished by thanking the finance team under the guidance of the S151 officer and Head of Finance through this difficult time.
The external auditor gave an update on the audit.
He reported that this is the first time the audit has taken place remotely.
Valueers are mandated to put an opinion of material uncertainty to the Council's property as of 31 March due to COVID-19 and the uncertainty of the property market. A limitation of scope opinion will appear in the statement of accounts in September.
In response to a question on the locality fund the S151 responded by stating any underspend will be rolled forward to future years within the four year term into the locality fund of each member.

The Chairman proposed that the action plan for the declaration of a Climate Change & Biodiversity Emergency be added to the Statement of Accounts and that a cross party working group meet on a regular basis to look at the Council's position.
The S151 Officer confirmed that Servico, a dormant company of the Council which is shared with South Hams will be reviewed this year with the intent to bring back a report to Committee for a new use for the company or to dissolve it.

It was then **RESOLVED** that:

The content of the Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2020 were noted.

*** AC 8 ANNUAL REPORT 2019/20**

Cllr Jory took members through the Annual Report 2019/20. He thanked The S151 Officer and team for their hard work. He thanked the waste team and the management of FCC on the work with the new waste contract. The Council's response to Covid-19 has been positive and is now working on a recovery plan.

It was then **RESOLVED** that:

1. That progress and achievements made by the Council were noted; and
2. That the West Devon Annual Report (as presented at Appendix A) was considered for the financial year 2019/20, with any amendments being suggested prior to publishing

AC 9 COMMERCIAL PROPERTY INVESTMENT REPORT

Cllr Jory presented the report on Commercial Property Investment.

It was **RESOLVED** that:

That the performance and risks of the commercial property portfolio to date was noted.

(The Meeting terminated at 11.11am)

Dated this

Chairman

The Audit Findings for West Devon Borough Council

Year ended 31 March 2020

07 October 2020

Contents

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Headlines

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

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, staff re-deployment, closure of car parks, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.

Councils are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the target date for audited financial statements to 30 November 2020.

We considered in our audit risk assessment the impact of the pandemic on our audit and issued an audit plan on 24 March 2020. In the plan, we reported a financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions on non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

We started our audit on 15 June 2020. The Council’s financial statements were provided on 23 July 2020, in advance of the revised national deadline, however we received a draft working copy on the 18 June 2020. In most areas, management have provided good working papers and there has been a responsive attitude to audit queries which reflect really well on the Council from an audit perspective. As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries alongside the “day job” and the requirements of additional government returns and internal reporting. There are some areas where working papers could be improved, and we have discussed these with management throughout the audit.

Financial Statements

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

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

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially consistent with the financial statements or our knowledge obtained in the audit.

Our audit work was completed remotely during June to October 2020. Our findings are summarised on pages 6 to 19. Audit adjustments are detailed in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A and our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- cut-off testing for Debtors and Creditors;
- completion of our audit procedures on the Council’s net defined pension liability, including receipt of assurances from the Devon Pension Fund auditor;
- final quality review of the valuation of the Council’s land and buildings;
- final quality review of the audit file and receipt of satisfactory responses to our outstanding queries;
- receipt of the signed management representation letter (on the agenda); and
- review of the final set of financial statements.

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

Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings and investment properties – refer to page 8 for further detail. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in it’s valuations.

Headlines

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

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Devon Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 22.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code, however, the areas outlined on page 3 are still to be concluded.

Acknowledgements

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

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 24 March 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E. Outstanding items are detailed on page 3.

Our approach to materiality

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

With the exception of senior officers remuneration (see* below), materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for West Devon Borough Council.

	£,000	Qualitative factors considered
Materiality for the financial statements	502	The Council operates in a stable, publicly funded environment.
Performance materiality	377	75% of materiality, no history of deficiencies or large number of misstatements.
Trivial matters	25	Level set for reporting errors or omissions to TCWG.
Materiality for Senior Officer Remuneration	12*	Public sensitivity in the pay of senior officers in the public sector.

*We reported a materiality level for Senior officer remuneration of £15k in our audit plan. Upon receipt of the draft financial statements expenditure on senior officer remuneration in 2019/20 was less than 2018/19 and we therefore revised our materiality level down.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

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

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

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. As previously noted, we received draft financial statements in advance of the revised national timetable;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

We recommended that the Council enhance it's disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.

The Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis. This is a national issue related to the Covid-19 pandemic and the Council is following national guidance from RICS in its valuation of land, buildings and investment properties. More information is included on page 8.

We reviewed management's other estimates and judgements in light of the Covid-19 pandemic and concluded that these were reasonable.

The audit was completed remotely which resulted in certain challenges and work taking longer than we would have expected in normal conditions.

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement and there are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** We have raised a control recommendation in Appendix A in respect of journals. Our testing of journal entries made in year did not identify any issues.
Valuation of pension fund net liability The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£21.8m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • considered the impact of Covid-19; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the update of member data as part of the 2019 triennial actuarial valuation. **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£21.846m for other land and buildings, £19.004m for investment properties) and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings and investment properties as a significant risk.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • discussed with and wrote to the valuers to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. **Findings** Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the land and buildings and investment property valuations to the balance sheet and the caveat made by the valuers in their valuation reports, we will highlight the material uncertainty in our audit report in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosures made in the statement of accounts in Note 1. The EOM paragraph does not qualify the opinion but refers to management's disclosure on the material uncertainty that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our work on the valuation of land and buildings and investment properties to date has not identified any matters to bring to your attention.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings - £21.8m	Land and buildings comprises: • £18.2m Land and buildings • £0.4m Public conveniences • £2.1m Industrial units • £1.1m Commercial properties and Land. The Council used it's internal valuer to complete the valuation of properties as at 31 December 2019 on a five yearly cyclical basis. 22%, by value, of total assets were revalued during 2019/20. The valuation of these properties has resulted in a net increase of £0.1m. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2019 and those valued in earlier years, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to their value. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates disclosure in Note 1 in the Statement of Accounts.	We have assessed the Council's valuer to be competent, capable and objective. We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings. The valuation method remains consistent with the prior year. However, in line with our recommendation in the prior year, the valuation process has moved from a once every five year programme to a five year cyclical process. We confirm consistency of the estimate against the expectation derived by the audit team through the use of our auditor expert, Gerald Eve, and concluded that the movements and potential movements for non-valued assets were reasonable with no material issues arising. We have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts. We have no issues to report in the respect of the valuation of land and buildings to date, and are finalising our last procedures in respect of this area of the accounts.	**GREEN**

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment properties - £19m	The Council used a specialist valuer to complete the valuation of investment properties as at 31 March 2020. The valuation of properties has resulted in a net decrease of £1.1m. Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19.	We have assessed the Council's valuer to be competent, capable and objective. We reviewed the valuations performed by the valuer, with reference to the comparative properties and information used by the valuer in undertaking their valuations, and considered these to be appropriate. The valuation methodology applied remains consistent with the prior year. We agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts. The Council did not include the disclosures on this issue within its Key Judgements and Material Estimates disclosure in the draft Statement of Accounts. The Council will update this in the final version of the accounts and we will refer to this in an Emphasis of Matter paragraph in our audit report. We have no other issues to report in respect of the valuation of Investment properties.	**GREEN**

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area: **Net pension liability – £21.8m**

Summary of management's policy

The Council's net pension liability at 31 March 2020 is £21.8m (PY £23.8m). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3m net actuarial gain during 2019/20.

Auditor commentary

We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.

We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.

We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.35%	GREEN
Inflation (RPI/CPI)	2.7% 1.9%	2.65%-2.8% 1.85%-1.95%	GREEN
Pension increase rate	1.9%	Between 1.85%-1.95%	GREEN
Salary growth	2.9%	Between 2.85%-2.95%	GREEN
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.9 years Non-pensioners: 24.3 years	21.4 – 23.2 22.8 – 24.7	GREEN
Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1 years Non-pensioners: 25.5 years	23.7 – 24.7 25.2 – 26.2.	

We further challenged some of the methodologies and assumptions adopted by the actuary, see page 14 for further information.

Our work in this area remains on-going and we also await receipt of an assurance letter from the auditor of Devon Pension Fund.

Assessment

In progress

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NDR appeals - £0.8m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. In 2019/20 the provision is £0.8m, an increase of £0.2m from the prior year.	The draft Statement of Accounts includes an accounting policy for the NDR appeals provision. The disclosure of the NDR appeals provision within the financial statements is adequate. Our review has not identified any significant issues to bring to your attention.	**GREEN**
Provision for bad debts - £1m	The Council makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. The Council adopts a calculation methodology based upon past experience and the age of debts to make an allowance for non-collectable amounts of the reported debts. Management have reviewed the amounts collected in year against the provision at 31 March 2019. This review indicates that the Council's provision may be over-prudent. In 2019/20 management included an additional 10% allowance for bad debts given the Covid-19 pandemic and the impact that this may have on revenue collection.	We have reviewed the Council's methodology and recalculated the provision. We consider that the Council's methodology is appropriate, whilst noting that it is potentially over-prudent in some cases. The methodology applied is consistent and we consider that the estimated provision for bad debts, including the additional values provided as a result of Covid-19, are reasonable.	GREEN
Shared services recharges - £1m	**Allocation of shared costs** The Council operates on a shared service basis with South Hams District Council. Consequently, there are a number of costs borne by each Council that are reallocated as part of process to allocate costs equitably between the two Councils.	We have: • reviewed the basis of allocation to ensure that it is reasonable and appropriate; • considered any changes from the prior year basis; and • tested the calculation of transferred costs. Our work has not identified any issues with the allocation of shared costs.	GREEN

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Assessment

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

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
Pension Liability Experience gains included in the change in actuarial valuations.	The recorded gain arising from the actuary's use of the roll-forward approach gave a gain of £899k over the three years since the last triennial full valuation. The explanation for this was provided by the actuary as follows: • £310k in respect of two significant transfer values paid out of the Fund; • £110k in respect of the death of a pensioner member who was relatively young, and therefore who had a significant pensioner liability; and • £450k due to CPI inflation (pension increases) being lower than was originally assumed. Actual pension increases from 2016 to 2019 were on average 2.1% p.a. but the assumed increase made for the accounting roll forward was 2.5% p.a.	The recorded gain of £899k equates to £300k per annum, below our materiality. We are satisfied that the actuary's approach is appropriate to make a reasonable estimate of the liability each year. Our auditor expert has assessed the use of the roll forward methodology can produce an error of up to 3% each year, it should be noted that this could be under or overstatement, so may not necessarily be cumulative. 3% of the current liability would be £653k. We have undertaken additional procedures that give us assurance that the actuary's approach remains a reasonable basis for making the estimate, including if the explanation provided by the actuary for the experience adjustments was in line with our expectations. We can confirm that the response from the actuary provides us with sufficient evidence and assurance over the experience items. Management will need to review future actuarial valuations and satisfy themselves that the actuary's valuation is reasonable in the context of the liability. **Management response** The Council will ask for further analysis (a breakdown) of future actuarial valuations and this will be raised by the s151 Officer at the next meeting of the Devon s151's Officers meeting.
Bank Reconciliation There is an historical difference on the bank reconciliation.	The bank reconciliation is unbalanced by £69k, this results from an historic reconciling item arising from a change in software systems that should have been written off in previous years.	Management have reviewed the reconciliation and confirmed that the difference relates back a number of years and have provided an analysis that supports this. The amount needs to be written off to ensure that future reconciliations are accurate. **Management response** The Council will write off the historic reconciling item and the presentation of the bank reconciliation will be enhanced for the reconciliation between the balance on the bank statement at 31.3.2020 and the balance on the General Ledger at 31.3.2020.

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Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process The Council’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	We have subjected the 2020/21 budget, Medium Term Financial Strategy to 2024/25 and cash flow forecast to March 2022 to detailed scrutiny and reviewed the planned budget proposals for 2020/21 in our consideration of the appropriateness of management’s use of the going concern assumption. The section 151 officer has produced an assessment of the Council’s use of the going concern assertion. We have reviewed this and the underlying support and concur with her opinion that the going concern basis is appropriate. In only exceptional circumstances would we expect a local authority not to prepare its accounts on a going concern, in line with the Code and the public sector adoption of the going concern assumption. In 2020/21 the Council expects to achieve a balanced budget and the Council’s usable reserves at 31 March stood at £6.2m. This represents 24% of gross cost of services. The Council had £14m of cash and investments which represents over 17 months of the Council’s net cost of services. The Council therefore has access to cash to meet it’s bills. It also has sufficient borrowing headroom within it’s borrowing limit as set out in it’s Treasury Management Strategy should it need to raise additional cash. The Covid-19 pandemic has resulted in a reduction of income in 2020/21, some of which has been covered through government support. The anticipated budget shortfall for 2021/22 is £0.5m, and the Council has reported a number of actions it can take to address the position. **Conclusion** We have not identified any material uncertainty about the Council’s ability to continue as a going concern. However we recommended that the Council add further disclosures around the Council’s going concern position and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A standard letter of representation will be requested from the Council and has been included on the Committee's agenda.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment institutions. This permission was granted and the requests were sent. Positive confirmations were received for all.
Disclosures	Our review found no material omissions in the financial statements. Further information on disclosure changes can be found in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management have been provided, with the exception of the final outstanding items listed on page 4.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially consistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and • if we have applied any of our statutory powers or duties. The Council has added some best practice improves to the Annual Governance Statement as suggested in Appendix A. We have concluded that it meets the disclosure requirements and is not misleading or inconsistent with other information.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the audit threshold set by the NAO.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of West Devon Borough Council in the audit report, as detailed in Appendix E.

Value for Money

Background to our VFM approach

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

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

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

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

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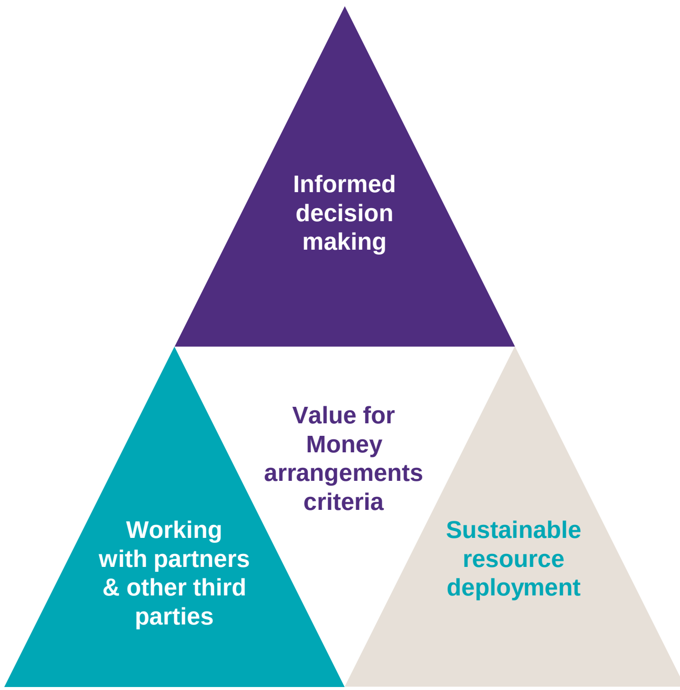

Risk assessment

We carried out an initial risk assessment in March 2020 and identified one significant risk in relation to the Council's financial outturn and sustainability using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 24 March 2020

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

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

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

- the Council's arrangements for setting it's 2019/20 budget and five year Medium term strategy;
- how these evolved through discussion and reporting;
- the Council's monitoring and flexing of the budget through 2019/20;
- the Council's 2019/20 financial outturn; and
- the Council's response to the Covid-19 pandemic on it's income and expenditure streams.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 21.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management. We recommend that the Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Value for Money (continued)

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Financial outturn and sustainability

The risk as identified in our 2019/20 Audit Plan

The Council's 2021/22 budget proposals show a shortfall of £0.4m for 2020/21 and £1.6m over the five year life of the current MTFP.

The shortfall is after expected savings of £80k is delivered from Investment Property rental income, and £0.2m from a reduction in the pension employer secondary rate contributions.

Total revenue (earmarked and unearmarked) reserves at 31 March 2020 are projected to be £4.4m (PY £5.6m).

Findings

The Council commenced it's financial planning for 2019/20 in September 2018, and this comprised:

- updating the forecast financial position for 31 March 2019;
- compiling the projected budget for 2019/20;
- further projecting and updating the medium term financial plan up to 31 March 2025; and
- setting out proposals and options to address the forecast financial shortfall.

The initial forecast set out a £0.5m budget gap for 2019/20 and a five year cumulative shortfall of £3.8m if no mitigating actions were taken. Over a series of budget workshops and member discussions the budget evolved and a balanced budget was agreed and adopted in January 2019.

The Council's out-turn for 2019/20 was a £0.1m underspend against the £7.1m budget (1.9%), the underspend was added to the Council's unearmarked reserves. At 31 March 2020 the Council's usable reserves stood at £6.2m which represents a significant proportion of the Council's net annual budget.

The underspend for 2019/20 arose primarily from:

- £86k - Commercial Property net investment income (meeting the £80k target set out above)
- £40k - Additional Treasury Management investment income
- £59k - Business Rates Pooling Gain

The above were offset by a £109k shortfall in Housing Benefit overpayment recoveries.

Following the triennial actuarial valuation, the expected pension savings were achieved.

Value for Money (continued)

Financial outturn and sustainability

Findings (continued)

The Medium Term Financial Strategy (MTFS) was also developed throughout the year and there remained a five year forecast cumulative gap of £1.4m. Options were set out to mitigate the shortfall, and these include:

- use the 3rd tranche of COVID funding received from the Government;
- use the New Burdens Government grant funding received for the administration of the Business Rates Grants;
- utilising the 2019/20 Statement of Accounts underspend;
- allocation of the uncommitted New Homes Bonus (NHB) from 2020/21 to further fund the revenue base budget; and
- reducing the capital budget for the remedial works to the Tavistock Viaduct from £100k to £20k (this capital budget was being funded by NHB which is revenue funding).

These measures should close the forecast gap for 2020/21, however they are by their nature one-off. There is a risk that one-off measures will not be available in future years and recurrent measures should be identified.

September 2020 will see the start of the planning for 2021/22. Currently the forecast gap is £0.4m. It is the intention that the 2020 Spending Review will be finalised this Autumn and will cover the years 2021/22 to 2023/24. This will allow the Council to use up to date funding data in it's MTFS planning moving forwards.

The Council is in a sound position to address future uncertainties as its reserves of £6.2m represent 85% of it's net annual expenditure and, at 31 March 2020, the Council had £14m of accessible cash and investments to cover any short-term cashflow issues.

Auditor view

As the reserves position at 31 March 2020 shows, West Devon has robust procedures to set, monitor and deliver its financial plans and the Council has accumulated a good level of reserves to meet those plans. However, the future financial plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability.

The Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services and should ensure that it continues to take any difficult decisions on the delivery of services and savings in the future.

We propose to issue an unqualified Value for Money Conclusion for 2019/20.

Management response

The Council has set an Amended Budget for 2020-21 to address the predicted £0.5m shortfall. In October, the Hub Committee will consider the Council's Medium Term Financial Strategy (MTFS) and the Council awaits an announcement from the Government on the future Comprehensive Spending Review, which will enable the Council to see if its assumptions in the MTFS hold true. Draft proposals for a draft budget for 2021/22 will be considered by the Hub Committee on 1st December 2020.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£6,250*	Self-interest, self-review, management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,250 in comparison to the total fee for the audit of £36,535 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.

* Proposed fee, our work has yet to begin on the Councils Housing Benefits Subsidy return for 2019/20.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Councils S151 Officer. None of the services provided are subject to contingent fees.

Action plan

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

Assessment	Issue and risk	Recommendations
Medium	**Value for Money** As the reserves position at 31 March 2020 shows, West Devon has robust procedures to set, monitor and deliver its financial plans and the Council has accumulated a good level of reserves to meet those plans. However, the future financial plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability.	The Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services and should ensure that it continues to take any difficult decisions on the delivery of services and savings in the future. **Management response** The Council has set an Amended Budget for 2020-21 to address the predicted £0.5m shortfall. In October, the Hub Committee will consider the Council's Medium Term Financial Strategy (MTFS) and the Council awaits an announcement from the Government on the future Comprehensive Spending Review, which will enable the Council to see if its assumptions in the MTFS hold true. Draft proposals for a draft budget for 2021-22 will be considered by the Hub Committee on 1st December 2020.
Low	We note that the Annual Governance Statement makes no reference to: • governance arrangements within partnerships and joint working • the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014); • GDPR; or • IT systems and controls. Inclusion of these areas constitutes best practice and the Council should consider making these disclosures in future Annual Governance Statements.	The Council's reporting of it's governance arrangements would be enhanced if the identified areas were disclosed in the Annual Governance statement **Management response** This is noted. The final Annual Governance Statement presented to the Audit Committee in October 2020 contains the extra disclosure for partnerships, the Code of Practice, GDPR and IT systems and controls.

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
High	**Journals** Management have a review process whereby journals over £25k are reviewed by a second individual, a Finance Business Partner. Our review of the Council's journals and the reports used to identify those journals which require review identified the journal date selection criteria set up for the generation of the monthly review reports resulted in certain journals over £25k being omitted from the report and hence being unreviewed in months 1-3. Journals represent a risk of management override of controls and sufficient controls should be in place in order to identify fraud or error.	The Council should ensure that the reports used to highlight journals for review identify all journals over £25k. Management and Those Charged With Governance should also note the risk of unreviewed journals below £25k. **Management response** The original journals over £25k report was a period specific report which resulted in a small number of new year journals from months 1-3 being omitted from the report. We have now re-written the report to pick up all manual journals over £25k to eradicate this issue. The report will be run monthly but will cumulatively report journals from the start of the year. This report has been re-run retrospectively for 2019/20 and all journals over £25k have been reviewed.
Medium	**Debtors and Creditors** The Council's income and expenditure sub-systems (e.g. car parking fines system) operate in real-time, in that they give a point in time position of balances. For audit purposes it proved difficult to recreate the year-end balances for our testing purposes.	The Council needs to retain the details of debtors and creditors outstanding at the year-end to provide a trail that demonstrates who owes the Council and how collectible that might be, and what creditors were outstanding at year end. **Management response** This related to only a few feeder systems such as the car parks fines system (not the main Debtors and Creditors system). The Council will include within its workplan for next year a note to ensure that an extract of this system is taken at the year end date (31 March) to show a breakdown of all outstanding car parking fines at 31st March.
Medium	**Bank reconciliation** The bank reconciliation is unbalanced by £69k, this results from an historic reconciling item arising from a change in software systems that should have been written off in previous years.	The Council should ensure that the historical amount is written off and that future bank reconciliations can be fully reconciled. **Management response** The Council will write off the historic reconciling item and the presentation of the bank reconciliation will be enhanced for the reconciliation between the balance on the bank statement at 31.3.2020 and the balance on the General Ledger at 31.3.2020.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of West Devon Borough Council's 2018/19 financial statements, which resulted in 3 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**IT General Controls** IT General Controls have been reviewed. There are a number of identified weaknesses that have been the subject of a separate report.	The Council's management team have followed up the issues raised, and we are satisfied that the Council has or is addressing the control issues identified.
✓	**Revaluations** In future years management have agreed that a five year rolling programme of revaluations will be put into place, such that at least 20% of assets will be revalued each year. This will both smooth the work of the valuer, and will start to address managements review of the fair value of it's land and buildings at the year end. The valuer will also undertake a "desk top" exercise at each year end to consider both the 3 month period for those assets revalued in year, and the possible change in value since the last revaluation to the year end for all land and buildings not revalued in year.	The Council now undertakes a five-year rolling review. The Valuer has reviewed movements in asset valuations from revaluation date to 31 March 2020. We have considered this as set out on page 10 and are satisfied that the Council has appropriate revaluation processes in place.
✓	**Commercialisation** We recommend that management continue to monitor emerging guidance from CIPFA and central government on the acquisition of investment properties and related borrowing. In particular, management and members will need to closely scrutinise levels of borrowing related to investment property purchases and ensure that due diligence, legal, financial and other appropriate advice is sought, proportionality is considered prior to further purchases. Specific legal and due diligence will need to take place for each investment property purchased out of area and the concept of proportionality always adhered to.	There were no further Commercial acquisitions in 2019/20.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
There were no adjusted misstatements			

Misclassification and disclosure changes

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

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Disclosure	Detail	Auditor recommendations	Adjusted?
Minor disclosure improvements	Various minor amendments to improve the presentation of the draft accounts.	To correct the presentation points identified	Yes
Significant estimates	Whilst bad debt provisions are material, there is no significant risk of material misstatement in future periods as a result estimation uncertainty and therefore should not be disclosed in this Note.	Remove the disclosure	Yes
Accounting policies	d) Material items sets materiality as £300k. The Comprehensive Income and Expenditure Statement (CIES) discloses amounts below this.	Line in the CIES should be removed	Yes
	k) & o) The Council has policies for Heritage Assets and Jointly Controlled Operations, but has no items to disclose.	Policies should be removed	Yes
	q) The Council's depreciation policy, and namely the typical useful lives disclosed, does not reflect the lives used in practice and should be updated.	The depreciation policy has been updated to reflect the Council's current practice.	Yes
Critical judgements	Shared services – the disclosure did not set out the nature of the judgement, the impact on the accounts or how the Council arrived at the judgement.	Update the disclosure	Yes
	Pension fund asset valuations is not a judgement, rather an estimate and already included in Note 1.	Remove the pension reference from the Critical Judgement note	Yes
Going Concern	The Council makes little reference to going concern and the impact of the Covid-19 pandemic.	Enhance disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.	Yes

Audit Adjustments

Impact of unadjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
1	**CCLA Investment** In the Statement of Accounts, the investment of £0.5m is designated as Fair Value through Other Comprehensive Income (FVOCI). The terms of the agreement allow redemption on demand and in our view the investment does not therefore meet the designation criteria to be held as FVOCI under IFRS 9. In our view the investment should be classified as Fair Value Through Profit and Loss. The cumulative write down of value of £26k has been incorrectly charged to Other Comprehensive Income rather than the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. As noted in the Council's accounts, there is a temporary Statutory Override in place that allows Fair Value movements to be reversed to an unusable reserve so there would continue to be no impact on the General Fund of this reclassification. The Council also treats the investment as a long term investment on the Balance Sheet. The terms of the investment allow redemption on demand and as such this meets the criteria of a short term rather than long term investment.	(In year) Cr Other Comprehensive Income and Expenditure £18k (Cumulative) Cr Other Comprehensive Income and Expenditure £26k	Dr Short Term investments £474k Cr Long Term investments £474k	(In year) Dr (Surplus) or Deficit on Provision of Services £18k (Cumulative) Dr (Surplus) or Deficit on Provision of Services £26k	
2	**Bank reconciliation** The bank reconciliation is unbalanced by £69k, this results from an historic error arising from a change in software systems.	Dr Cost of Services £69k	Cr Cash £69k	Dr Total net expenditure £69k	
		(In year) £87k	**£69k**	**(In year) £87k**	

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£36,535	TBC

Non-audit fees for other services	Proposed fee
Audit Related Services	
Grants:	
Housing Benefit Subsidy return	£6,250

Audit opinion

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

DRAFT Independent auditor's report to the members of West Devon Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Devon Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund for the year ended 31 March 2020 and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Corporate Director of Strategic Finance (Section 151 Officer) and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Strategic Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Strategic Finance (Section 151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Corporate Director of Strategic Finance (Section 151 Officer)'s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

Audit opinion

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and investment properties

We draw attention to Note 1 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and investment properties as at 31 March 2020. As disclosed in Note 1 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the both Authority's land and buildings valuer's report and the investment property valuer's report. Our opinion is not modified in respect of this matter.

Other information

The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Statement and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Strategic Finance (Section 151 Officer). The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Strategic Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Audit opinion

In preparing the financial statements, the Corporate Director of Strategic Finance (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the West Devon Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jackson Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]

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Informing the audit risk assessment for West Devon Borough 2019/20

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Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	The Covid pandemic became prevalent in March 2020, near the year end date. This has had an impact on Fixed Asset Valuations with a Material Uncertainty shown in Note 1 'Assumptions made about the future and other major sources of estimation uncertainty'. The Council has followed national RICS guidance. The Council has four Investment Properties and there was a £1.1 million loss from the fair value adjustment as shown in Note 13. Reductions in fair value are debited to the provision of services and are not proper charges to the General Fund as they are reversed out to the Capital Adjustment Account in the MIRS. Therefore this change in valuation does not impact on the Council's 'bottom line' of the Income and Expenditure Account. The Council also carried out a Senior Management Restructure during 2019/20 and the posts deleted and posts created are referred to in the Narrative Statement. This created savings of £60,000 for each Council.
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes the appropriateness has been considered – they are considered appropriate. No
3. Is there any use of financial instruments, including derivatives?	A summary of Financial Instruments carried on the Balance Sheet are shown in Note 14 to the Accounts. The Council has a £0.5m Investment with the CCLA Property Fund.
4. Is Are you aware of any significant transaction outside the normal course of business?	No – see comments in Section 1 about the Covid pandemic in general.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No – see comments about Material Uncertainty due to the Covid 19 pandemic.
6. Are you aware of any guarantee contracts?	No. The main two contracts the Council has is for the delivery of waste services with FCC and for the delivery of leisure services with Fusion Leisure.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Legal fees have been: £23,535 (1,000 on planning advice, £2,416 on public conveniences transfers to Parishes and £20,119 on general legal professional fees) £18,671 for initial legal advice on the possible purchase of a solar farm £2,675 for legal advice on Community Housing projects
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	External advice was taken in HR on the Senior management review. Development specialists have advised on the future of Kilworthy Park and possible adaptations. Link Services have advised on Treasury Management advice for the year

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The Council's Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for West Devon Borough Council. This is done through the following: *Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy*: The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches. *The System of Internal Audit:* as described below, related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud. The Senior Leadership Team consider it to be unlikely that the financial statements are materially misstated due to fraud. 6 monthly reports on risk management are presented to the Council's Audit Committee. The risk management matrix used makes an assessment of the financial impact and the scoring is based on a range of financial impacts.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The area most at risk of Fraud is Housing Benefit Fraud.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Not within the Council or within Council departments. There is one area of potential fraud which was reported to the Audit Committee on 29th October 2019 (Minute AC21 refers from the agenda item Internal Audit Plan for 2019/20 – Update on Progress)

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	Please see details in 3. Yes housing benefit fraud.
5. What processes do the Council have in place to identify and respond to risks of fraud?	The Audit Committee receives a six monthly report on strategic risks. The Audit Committee also receives an annual report from the Statutory Officers' Panel (consisting of the Chief Executive, the S151 Officer and the Monitoring Officer) and one of the areas considered is Fraud. The Internal Audit Manager also reports on Fraud as part of his annual internal report to the Audit Committee.
6. How would you assess the overall control environment for the Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The Internal Control environment is reported on quarterly to the Audit Committee as part of the regular reporting of the Internal Audit Manager. A 'follow up' report is done on all internal audits on an annual basis also. Housing Benefit fraud is the highest risk area. See above None known of.

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	None known of to the S151 Officer
8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud?	The Anti Fraud, Corruption and Bribery arrangements, whistle blowing policy and other ethical standards are publicised throughout the Council and to a wider audience outside through training, leaflets, the internal computer network and the Council's website etc. Reliance is placed on the process and the Council's Constitution, which includes the following: After consulting with the Head of Paid Service and the Monitoring Officer, the Section 151 Officer will report to the full Council and the Council's external auditor if it is considered that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully; After consulting with the Head of Paid Service and Section 151 Officer, the Monitoring Officer will report to the Full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. There are processes in place to provide members of the Audit Committee, and other member bodies, with the assurance that when considering agenda items all relevant laws have been complied with, which includes: A formal system of consultation for all reports to member bodies, which includes advice on the legal implications from qualified solicitors and advice on financial implications by qualified accountants;
What concerns are staff expected to report about fraud?	The S151 Officer is not aware of any significant issues raised except the issue mentioned in No 3. All staff are recruited and regularly assessed against the Council's six IMPACT behaviours of Communicative, Responsible, Adaptable, Challenging, Co-operative and Outcome Focussed.

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for the Council. This is done through the following: Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy: The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches. The System of Internal Audit: related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud. A potential fraud has been reported to the Audit Committee during 2019/20 – see answer to 3.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The S151 Officer is not aware of any.
13. Have any reports been made under the Bribery Act?	No.

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Every Committee and Council report has to state the legal implications of the report and state the legal powers that are being used to make a decision. The Monitoring Officer and the S151 Officer review all reports that are published and reports are 'signed off' by these Statutory Officers. No – see comments about how Covid19 will affect valuations and a Material Valuation Uncertainty being given.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The Audit Committee receives a quarterly confirmation that there is no significant breach of law or internal rules.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The S151 Officer and Monitoring Officer have quarterly meetings with the Chief Executive (Statutory Officers Panel) where any such items would be discussed. None known of.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No – None known of.

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?	Yes – the latest Month 3 revenue budget monitoring report presented to the Hub Committee on Tuesday 28th July showed an expected shortfall (loss) for 2020/21 of £0.5million. The S151 Officer is assured of the Council's Going Concern Status. Monthly monitoring is being undertaken by the finance team. Options for an Amended Budget for 2020-21 are being presented to Members in September. Utilising the £133,000 underspend from closing down the 2019/20 Accounts will be one of the options being presented to Members in September. It is unlikely that the Council will need to utilise any of its Earmarked Reserves or Unearmarked Reserves in setting an Amended Budget for 2020-21. Earmarked Reserves total £4.984m at 31.3.2020 and Unearmarked Reserves stand at £1.2 million.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to members throughout the year?	Yes – various assumptions are made about income levels from July onwards but actual losses for the first 3 months have been factored in.

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Council, financial forecasts and report on going concern?	No new statutory or policy changes known of – apart from the Government support package for Covid19 pandemic.
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No none reported.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Cash Flow continues to be positive. The Council is being proactive in chasing all debts with reminder letters having been sent for council tax arrears, business rates arrears and sundry debtors. These reminder letters are not automated from the system but have instead been personalised to the customer's situation e.g. claiming council tax support. The reminder letters offer help and support for addressing arrears and debts. Further reminder letters are being sent in November. Team Devon (all the Devon Councils) have agreed to co-ordinate approaches to debt recovery in terms of timings and key messages.

Going concern considerations

Question	Management response
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes – the Senior Management Team has been recently recruited to. The Chief Executive is new in post in July 2020 but has a wealth of experience from being the South West Lead Adviser for the LGA.
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	Yes – monthly budget monitoring reports – also sets out the Government support package and the Government's 'income guarantee' scheme. Amended Budget will be set by Council in September 2020. Recovery and Renewal Plan re. Covid and 'Build Back Better' initiative will be taken to Council also in September 2020 for approval. Revised MTFS in October 2020.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None aware of.

Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Audit Committee ? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	Monthly revenue budget monitoring reports are reported to the Hub Committee on a monthly basis. The accounts set out elements of the going concern assessment such as the level of Unearmarked and Earmarked Reserves. An amended Budget for 2020-21 will be agreed by Council in September 2020. This will be done on a virement basis of how the budget shortfall of £0.5m will be met.

Related Parties

Issue

Matters in relation to Related Parties

the Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Relating Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	All Members and all of the Senior Leadership Team are required to complete a Related Parties Return in April 2020 following the Year End. Items disclosed on these returns are reviewed by the Finance Head of Practice, to assess whether they need to be disclosed within the Financial Statements.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

the Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	None known of by the S151 Officer.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes and these have not changed from the previous year.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Very little use of accounting estimates within the Financial Statements. De-minimis levels are set out clearly within the accounting policies. Note 1 to the Accounts sets out in detail the ‘Other Major Sources of Estimation Uncertainty’.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	the Council	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable the Council as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually in line with the Council.	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments (Collective Investment Fund (CIF)). Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the CIF portfolio in assessing the potential risk in credit losses.	Fund advisers – the Council	The CIF portfolio is assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Council.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. the Council signs off the write off.	N/A	N/A	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert the Council. These figures are based on making % adjustments to the closing values of assets/liabilities.	the Council responds to queries raised by the administering body, the Council.	the Council are provided with an actuarial report by the Council (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.

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COVID-19 and local government

Slide content for audit committees

September 2020

DRAFT

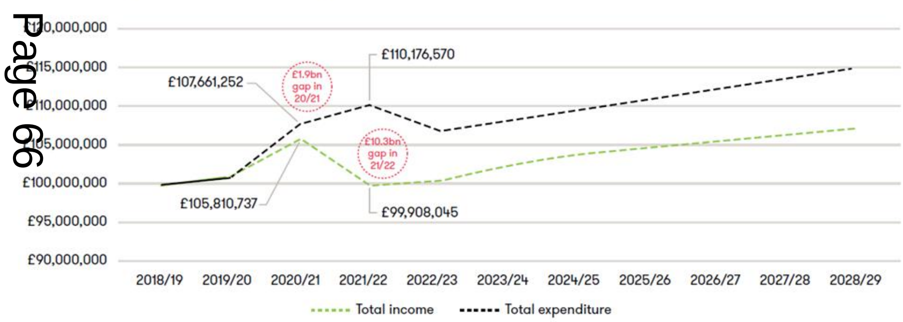
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside Covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



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Source: Grant Thornton/CIPFA Financial Foresight

Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales, fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

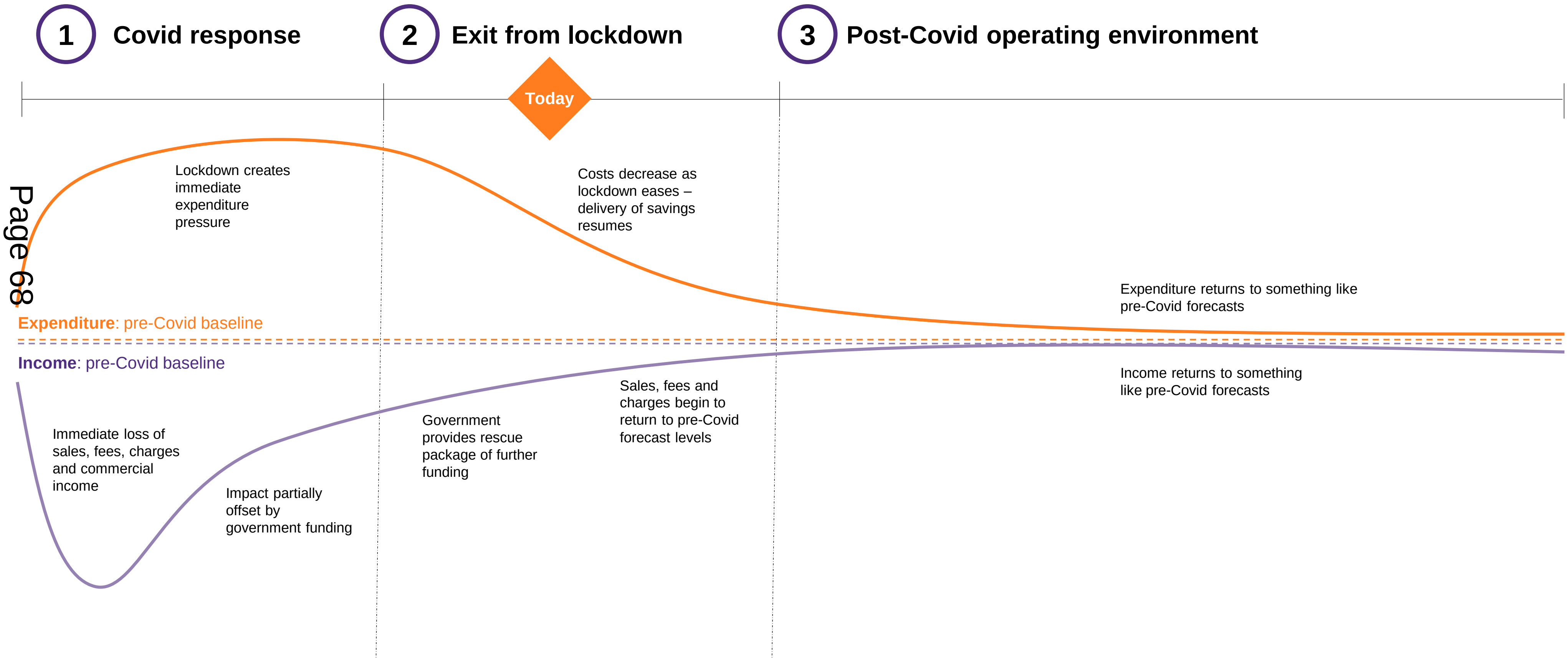
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully been produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

Example scenarios

Scenario 1 – swift return to normality



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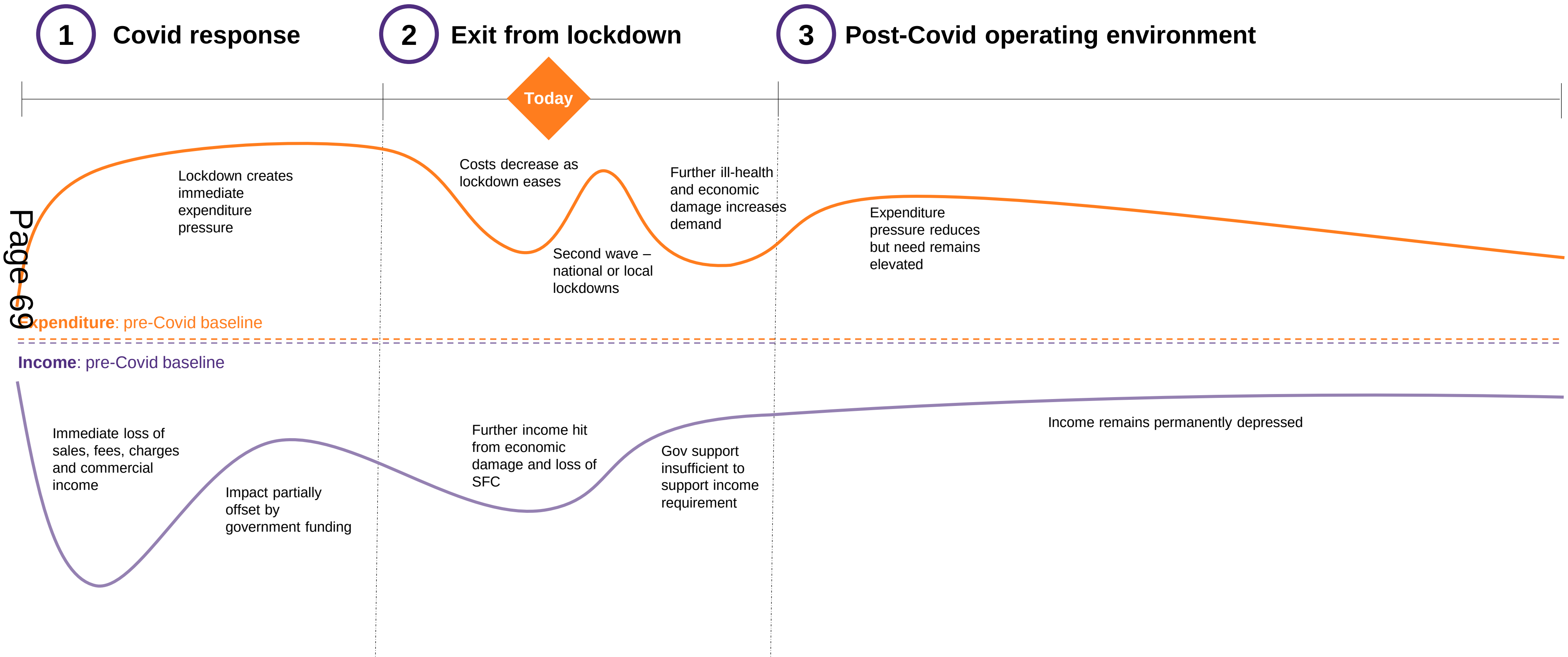
Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



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Scenarios and hypotheses
Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	• Multiple lockdowns and ongoing disruption • Community dependency and expectation of sustained response • Turbulence and activism within the VCS • Socio-economic inequality is compounded • Failure of leisure and cultural services	• Smooth exit from lockdown to a “new normal” • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus • Systemic response to inequality is accelerated • Leisure and cultural services adapted to social distancing
Business & economy	• 16% reduction in GVA for 2020 based on OBR reference scenario • Slow / uneven economic recovery and “long tail” on unemployment • Central gov / BEIS focus investment on areas furthest behind • Loss of tourist & student spend causes unmitigated damage • 'V' shaped recovery results in 2-3 year recovery period	• 5-10% reduction in GVA • Rapid economic recovery with employment levels close behind • Central government “back winners” with investment • Adaptation allows resumption of tourist and student economy • Business base is weighted towards growth sectors
Health & wellbeing	• Increased demand and escalating need due to fallout from lockdown • Newly-vulnerable cohorts place strain on the system • Unit costs increase further as markets deteriorate and providers fail • SEND transport unable to adapt to social distancing • Imposed disruption of care system	• Positive lifestyle changes and attitudes to care reduce demand • Needs of newly vulnerable cohorts met through new service models • New investment in prevention and market-shaping manage costs • New ways of working leading to stronger staff retention • Locally-led reform of health and care system
Political & regulatory	• Local government side-lined by a centralised national recovery effort • Unfunded burdens (e.g. enforcement and contact-tracing) • Councils in the firing line for mismanaging recovery	• Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	• Opportunity missed to capture and sustain environmental benefits • The end of the high street / town centres • Emissions and air quality worsened by avoidance of public transport • Capital programmes stuck	• Ability to invest in transport modal shift and green infrastructure • Changed working patterns rejuvenate town centres • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes
Organisational	• Inadequate funding forces fiscal constraint • Working practices return to status quo – increased operating costs • Imposed structural change within the place • Austerity 2 • Commercial portfolio becomes a liability	• Adequate funding enables a programme of targeted investment • Learning and adaptation to new operating environment • Energised system-wide collaboration and reform • Fiscal reform and civic renewal • Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

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Local Government audit and financial reporting – the Redmond Review

Grant Thornton

September 2020

The Redmond Review – scope and purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

The system is not working

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The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

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Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline -** The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

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Sir Tony's Recommendations

A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts

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recognition of the **role of authorities in improving governance and reporting** and

- development of **audited and reconciled accounts summaries.**

Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.

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Report to:	**Audit Committee**
Date:	**13 October 2020**
Title:	**Annual Treasury Management Report 2019/20**
Portfolio Area:	**Cllr C Edmonds – Performance & Resources**
Wards Affected:	**ALL**

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken**: N/A**

Author:	Alex Walker	Role:	**Finance Business Partner**
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Recommendations:

That the Audit Committee:

1. **Approves the actual 2019/20 prudential and treasury indicators in this report; and**
2. **Notes the Annual Treasury Management report for 2019/20.**

1. Executive summary

1.1 Income from investments this year was £129,947 which is £39,626 higher than the budget of £90,321 at an average return of 0.78%. The comparable performance indicator (Benchmark) is the average 1-month LIBID rate which was 0.56%. Therefore the Council achieved 0.22% return on investments over the benchmark for 19/20.

2. Background

2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2 Treasury management is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks "

2.3 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute CM 69)
- A mid-year (minimum) treasury update report (Minute AC 23)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

2.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2019/20 in order to support Members' scrutiny role.

3. The Economy and Interest Rates

3.1 **UK. Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

3.2 **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that has been done to businesses over the lock down period, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

3.4 After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during the lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs whilst the country was locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover. Provided the coronavirus outbreak is brought under control then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

3.5 **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

4. Overall Treasury Position as at 31 March 2020

4.1 At the beginning and the end of 2019/20 the Council's treasury position was as follows:

Treasury Portfolio	**31 March 2019**		**31 March 2020**	
	£'000	**Rate%**	**£'000**	**Rate%**
Treasury Investments:				
Short term – fixed	-	-	3,000	0.90
Money Market Funds	9,300	0.64	10,200	0.39
Property Funds	491	4.26	474	4.41
Total treasury investments	**9,791**		**13,674**	
Treasury External Borrowing				
PWLB	27,580	2.65	29,534	2.54
Total external borrowing (£28.944m of long term borrowing and £590k of short term borrowing)	**27,580**		**29,534**	
Net treasury investments / (borrowing)	**(17,789)**		**(15,860)**	

4.2 The following is a list of the Council's investments at 31 March 2020.

Fixed Term Deposits

Amount	**Investment**	**Interest rate**
£3,000,000	Lloyds Bank Plc	0.90%

Money Market Funds

Amount	**Investment**	**Interest rate**
£3,000,000	Aberdeen Standard Investments	0.47%
£3,000,000	BlackRock	0.38%
£1,200,000	Deutsche	0.31%
£3,000,000	LGIM	0.38%
£10,200,000	**Total**	

Property Funds

Amount	**Investment**	**Dividend Yield**
£473,893	CCLA – Property Fund	4.41%

4.3 At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.

4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2020 for the Council's investment was £473,893.

5. The Strategy for 2019/20

Investment strategy and control of interest rate risk

5.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

5.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

5.3 Whilst the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.5 The Treasury Management Strategy Report for 2019/20 was approved by the Council on 26 March 2019 (Minute – CM69).

5.6 In December 2019, the Council revised its Commercial Investment Strategy and the Investment Strategy to enable the Council to invest (and to borrow to invest) in renewable energy. This was approved by Council on 17th December 2019 (Minute CM53).

Borrowing strategy and control of interest rate risk

5.7 During 2019/20, the Council's capital borrowing need, (the Capital Financing Requirement), was fully funded with loan debt.

5.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

5.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic approach to changing circumstances:

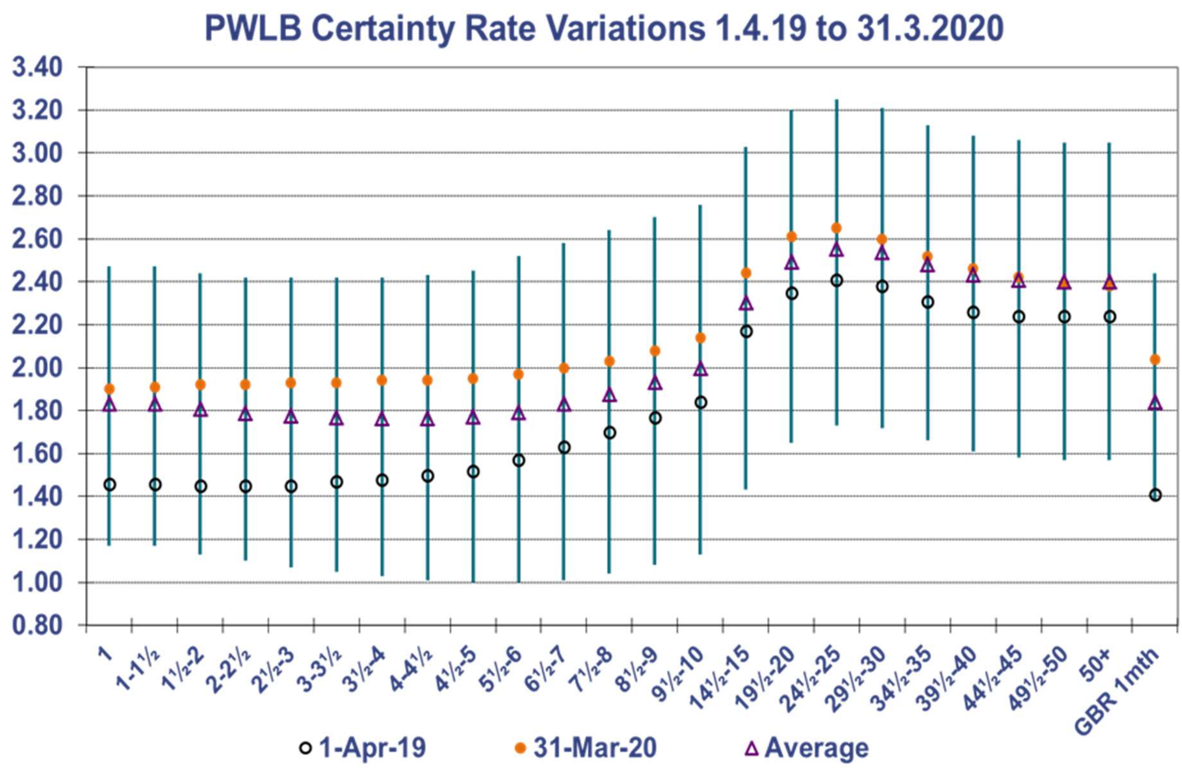
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

5.11 Interest rate forecasts during 2019/20 are shown below.

Link Asset Services Interest Rate View 31.1.20	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.50	2.60	2.70	2.80	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	2.70	2.80	2.90	3.00	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.30	3.40	3.50	3.60	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.20	3.30	3.40	3.50	3.80

5.12 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

5.13 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.

5.14 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

5.15 However, HM Treasury imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on the future lending terms for the Public Works Loan Board. The Council responded to this consultation.

5.16 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.17 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that was caused during the coronavirus shut down period. Inflation was very low during this period and could even turn negative in some major western economies during 2020-21.

6. Borrowing Outturn for 2019/20

6.1 Details of the loans outstanding at 31 March 2020 are shown below:

Lender	**Type**	**Maturity**	**Interest Rate %**	**Principal held at 31 March 2019 £'000**	**Principal held at 31 March 2020 £'000**
PWLB - Maturity	Fixed Interest Rate	45 Years	4.55	2,100	2,100
PWLB - Annuity	Fixed Interest Rate	9 Years	1.92	2,378	2,100
PWLB – Annuity	Fixed Interest Rate	22 Years	1.95	1,500	1,445
PWLB – Annuity	Fixed Interest Rate	50 Years	2.65	12,628	12,503
PWLB - Annuity	Fixed Interest Rate	50 Years	2.60	3,582	3,546
PWLB – 23 maturity loans	Fixed Interest Rate	49 Years	2.54*	3,592	3,592
PWLB – Annuity	Fixed Interest Rate	50 Years	2.31	1,800	1,780
PWLB – Annuity	Fixed Interest Rate	30 Years	1.73	-	2,468
Total				**27,580**	**29,534**

*Average interest rate

Repayments

6.2 During 2019/20 the Council repaid interest of £750,000 at an average rate of 2.53%.

Borrowing in advance of need

6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

6.4 In September 2019*,* when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £2.5 million at an interest rate of 1.73% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate (Brexit considerations as detailed in 3.1) and that the Council could ensure the security of such funds placed on temporary investment.

Debt rescheduling

6.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2019/20

7.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 26 March 2019 (Minute – CM69). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources £'000	31 March 2019	31 March 2020
General Fund Balance	1,286	1,219
Earmarked Reserves	4,316	4,984
Usable Capital Receipts	321	159
Provisions	649	804
Other	847	248
Total	**7,419**	**7,414**

8. Other Issues 2019/20

Financial Instruments – IFRS9 Election to treat Equity Instruments as Fair Value through Other Comprehensive Income

8.1 Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, West Devon Borough Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments (CCLA investment). These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds this investment as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

8.2 This election means there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investment will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

9. Outcomes/outputs

9.1 Income from investments this year was £129,947 which is £39,626 higher than the budget of £90,321.

9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the 1-month London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of March was 0.56% which is 0.22% lower than our average return of 0.78% as at 31 March 2020.

10. Options available and consideration of risk

10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

10.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

11. Proposed Way Forward

11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2019/20 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2019/20 are detailed and shown in Appendix B.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial Implications to include reference to value for money	Y	Income from Treasury Management activities amounted to £129,947 in 2019/20. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.
Community Safety, Crime and Disorder	N	None directly arising from this report.

Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 27 March 2020
Appendix B - Prudential and Treasury Indicators 2019/20

Background Papers:

Annual treasury strategy in advance of the year (Council 26 March 2019 – CM69)
A mid-year treasury update report (Audit Committee 29 October 2019 – AC23)

APPENDIX A

Counterparty as at 27th March 2020		Fitch Rating						Moody's Ratings				S&P Ratings			
United Kingdom		Long Term		Short Term	Viability	Support		Long Term		Short	Short	Long Term		Short Term	Suggested Duration
AAA Rated and Government Backed Securities	Collateralised LA Deposit*														Y - 60 mths
	Debt Management Office														Y - 60 mths
	Multilateral Development Banks														Y - 60 mths
	Supranationals														Y - 60 mths
	UK Gilts														Y - 60 mths
Banks	Abbey National Treasury Services PLC	SB	A	F1			1	NO	Aa3		P-1				R - 6 mths
	Bank of Scotland PLC (RFB)	SB	A+	F1	a		5	NO	Aa3		P-1	SB	A+	A-1	O - 12 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a		5	SB	A1		P-1	SB	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a		1	NO	A1		P-1	SB	A	A-1	R - 6 mths
	Close Brothers Ltd	SB	A	F1	a		5	NO	Aa3		P-1				R - 6 mths
	Goldman Sachs International Bank	SB	A	F1			1	SB	A1		P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+			1					SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	SB	A+	F1+	a		1	NO	Aa3		P-1	NO	AA-	A-1+	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	A+	F1+	a		1	NO	Aa3		P-1	NO	AA-	A-1+	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A	F1			1	SB	A1		P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a		5	NO	Aa3		P-1	SB	A+	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	SB	A	F1	WD		1	PO	Baa2		P-2	SB	A-	A-2	G - 100 days
	Santander UK PLC	SB	A+	F1	a		2	NO	Aa3		P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	SB	A+	F1	a		5	SB	A1		P-1	SB	A	A-1	R - 6 mths
	Sumitomo Mitsui Banking Corporation	SB	A	F1			1	SB	A1		P-1	PO	A	A-1	R - 6 mths
Building Societies	Coventry Building Society	SB	A-	F1	a-		5	NO	A2		P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-		5	NO	A3		P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a		5	NO	Aa3		P-1	PO	A	A-1	R - 6 mths
	Skipton Building Society	SB	A-	F1	a-		5	SB	Baa1		P-2				G - 100 days
	Yorkshire Building Society	SB	A-	F1	a-		5	NO	A3		P-2				G - 100 days
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	a		5	PO	A1		P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a		5	PO	A1		P-1	SB	A	A-1	B - 12 mths

Key

Watches and Outlooks			Duration	
SB	Stable Outlook		Yellow - Y	60 Months
NO	Negative Outlook		Blue - B	12 Months
NW	Negative Watch		Orange - O	12 Months
PO	Positive Outlook		Red - R	6 Months
PW	Positive Watch		Green - G	100 Days
EO	Evolving Outlook			
EW	Evolving Watch			

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Capital Expenditure	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
General Fund services	2,204	2,076	1,401
Community Housing	-	4,700	-
Capital investments*	21,379	16,000	4
TOTAL	**23,583**	**22,776**	**1,405**

*Capital investments relate to areas such as capital expenditure on investment properties. In 2019/20 there was a small amount of capital expenditure (£4k) spent on one existing investment property. The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale.

Capital Expenditure and Financing	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
Capital Expenditure	23,583	22,776	1,405
Financed by:			
External sources	(429)	(938)	(1,056)
Own resources	(330)	(546)	(349)
Unfinanced capital expenditure	**22,824**	**21,292**	**0**

NB. Please note that the estimate for 2019/20 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.

The Capital expenditure estimate for 2019/20 reflects the recommendations within the Commercial Investment Strategy. Note: The Council has purchased four investment properties to date.

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

CFR	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
Opening balance	4,240	26,432	26,570
Add unfinanced capital expenditure (as above)	22,824	21,292	0
Less MRP/VRP	(494)	(560)	(598)
Closing balance	**26,570**	**47,164**	**25,972**

The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale than that estimated for 2019/20.

The Council’s Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.56m in 2019/20. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
Debt	27,580	46,850	29,534
Capital Financing Requirement	26,570	47,164	25,972
Over/(under) funding of CFR	1,010	(314)	3,562

The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council’s Investment Property portfolio. Similarly, community housing schemes will be on a later timescale than that estimated for 2019/20.

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council’s overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2019/20 estimate to reflect the proposals within the Commercial Investment Strategy, and therefore increased this indicator. These proposals will now take place in 2020/21 and 2021/22.

	2018/19 Actual	2019/20 Estimate	2019/20 Actual
Financing costs (£)	1,004,143	1,756,601	1,217,195
Proportion of net revenue stream	13.7%	24.8%	17.2%

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2018/19	2019/20
	£	£
Borrowing	47,500,000	47,500,000
Other long term liabilities	-	-
Total	47,500,000	47,500,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2018/19	2019/20
	£	£
Borrowing	50,000,000	50,000,000
Other long term liabilities	-	-
Total	50,000,000	50,000,000

West Devon Borough Council's current level of borrowing as at 31 March 2020 was £29.53 million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

Refinancing rate risk indicator	**Approved minimum limits**	**Approved maximum limits**	**Actual 31 March 2019**		**Actual 31 March 2020**	
	%	**%**	**£million**	**%**	**£million**	**%**
Less than 1 year	0%	10%	0.514	1.9	0.590	2.0
Between 1 and 2 years	0%	10%	0.508	1.8	0.603	2.0
Between 2 and 5 years	0%	40%	1.675	6.1	1.971	6.7
Between 5 and 10 years	0%	75%	2.519	9.1	2.714	9.2
More than 10 years	0%	100%	22.365	81.1	23.656	80.1
Total			**27.581**	**100.0**	**29.534**	**100.0**

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Proposed Workplan for the Audit Committee for the 2020/21 financial year

Committee Meeting	**Proposed workplan/timetable for Audit Committee 2020/21**
17th November 2020	i) Grant Thornton Update report; ii) Six monthly update – Strategic Risk Assessment; iii) Six monthly update – Strategic Debt review; iv) Internal Audit Charter & Strategy; and v) Update on Progress on the 2020/21 Internal Audit Plan. vi) Investigatory Powers Inspection vii) Discretionary Business Grants
9th February 2021	i) Grant Thornton Update report; and ii) Update on progress on the 2020/21 Internal Audit Plan. iii) Six monthly treasury management update report
16th March 2021	i) Grant Thornton - External Audit Plan 2020/21 ii) Grant Thornton Update report; iii) Informing the risk assessment for 2020/21 (Planning for the 2020/21 Accounts) iv) Treasury Management update ; v) 2021/22 Internal Audit Plan; vi) Commercial Property Monitoring Report; vii) Draft Budget Book 2021/22; viii) Cost Methodology for Shared Services 2020/21; ix) Annual Review of Council Constitution; x) Update on Progress on the 2020/21 Internal Audit Plan; xi) Six monthly update – Strategic Risk Assessment; and xii) Six monthly update – Strategic Debt review.

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