

Interim Auditor's Annual Report on South Hams District Council

2021/22 and 2022/23

December 2023



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

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



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

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Executive summary






Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021/22 and 2022/23 because a separate 2021/22 report had not yet been issued. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2021/22 Auditor Judgment	2022/23 Auditor Judgment
Financial sustainability	No risks of significant weakness identified	 No significant weaknesses in arrangements identified	 No significant weaknesses in arrangements identified
Governance	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but two improvement recommendations were made	 No significant weaknesses in arrangements identified, but two improvement recommendations have been made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	 No significant weaknesses in arrangements identified	 No significant weaknesses in arrangements identified

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

Executive summary



Financial sustainability

South Hams District Council (the Council) continues to perform well with regard to financial sustainability, with a record of stable financial and budgetary management. Despite the challenging environment in which it continued to operate in during 2021/22 and 2022/23, the Council has achieved a balanced budget. Our work has not identified any significant weaknesses in arrangements to secure financial stability.

Further details can be seen on pages 7 to 10 of this report.



Governance

Our review of the governance arrangements has not identified any significant weaknesses in arrangements or the need for key recommendations in relation to governance. We have identified opportunities to further enhance the Council's governance arrangements with regard to stakeholder engagement and procurement controls.

Further details can be seen on pages 11 to 17 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated an appropriate understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements, we have made one improvement recommendation.

Further details can be seen on pages 18 to 21 of this report.



2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 31 March 2023. The opinion was delayed past the statutory deadline of 30 November 2022 due to a national accounting issue affecting all Local Authorities with significant infrastructure assets, which was resolved following updated legislation which was issued after 30 November 2022. Our findings are set out in further detail on page 25.

2022/23

We have not yet completed our audit of your financial statements. We will report our findings to the Audit and Governance Committee once our audit work is concluded.



Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>	We did not issue any statutory recommendations.	We did not issue any statutory recommendations.
<p>Public Interest Report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	We did not issue a public interest report.	We did not issue a public interest report.
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	We did not apply to the Court.	We did not apply to the Court.
<p>Advisory notice</p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful. 	We did not issue any advisory notices.	We did not issue any advisory notices.
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	We did not apply for judicial review.	We did not apply for judicial review.

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

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

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

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

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



Financial Sustainability

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



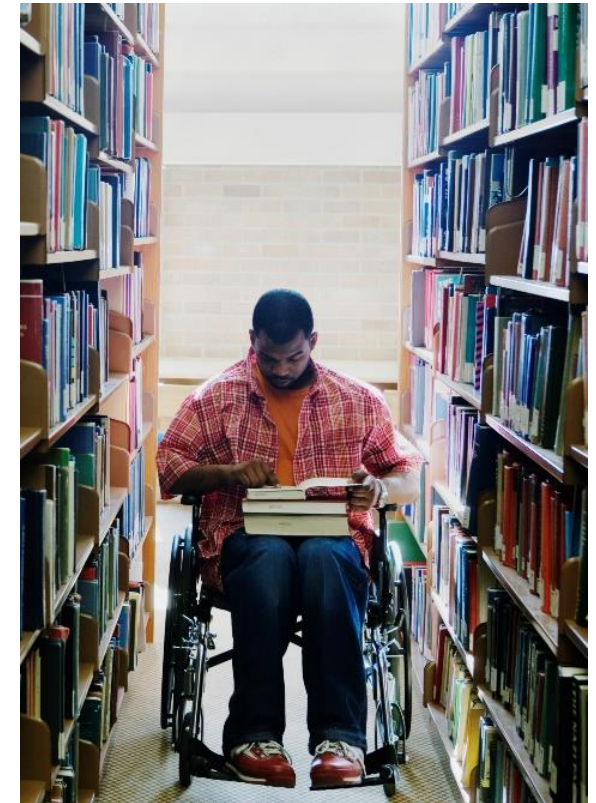
Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 21. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

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

The Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans

Financial outturn

The Council has a track record of achieving financial balance and this continued in the period under review, with the 2021/22 revenue outturn reporting a surplus of £214k with actual spend 2.2% less than the budget and 2022/23 outturn highlighting an underspend of £57k (0.5% of the net budget of £10.464m).

The Council's financial planning for 2021/22 and 2022/23 followed the agreed framework and began with its updated five-year Medium Term Financial Strategy (MTFS) each September. The MTFS is based on the previous year's budget and is updated considering the previous year's outturn and any changes in service provision. The annual budget is based upon the first year within the MTFS. A sensitivity analysis accompanied the 2021/22 and 2022/23 budgets to highlight the impact of potential changes to assumptions; for example the 2022/23 budget sensitivity and risks analysis identified a potential total adverse revenue effect for 2022/23 of £1.38m, noting that the Council's revenue reserves are recommended to be maintained at a minimum of £1.5m. This allows decision makers and public to truly understand the financial plans and potential risk to their delivery.

The MTFS was discussed and agreed by the Extended Leadership Team, before the Senior Leadership Team and prior to approval by the Executive and finally the Full Council, allowing sufficient challenge and debate of the proposals.

The 2021/22 budget (agreed by Council February 2021) highlighted an inflation assumption inflation at 1% over the five-year MTFS period, which was in accordance with CPI rates and forecasts at the time of budget setting. Within the financial year, the economic environment changed significantly, however our consideration of this assumption and the others that underpin the 2021/22 and 2022/23 budgets were that they were reasonable at the time they were set.

As previously noted, the Council achieved a revenue budget surplus in both years which provides assurance that in-year monitoring and action was robust, and our review of 2021/22 and 2022/23 regular budget performance highlighted on-going performance (and risks to delivery of the budget assumptions, including inflationary impacts) is adequately included as part of regular update reports.

The Council plans to bridge its funding gaps and identifies achievable savings.

The MTFS details a cumulative aggregated budget gap by 2025/26 that is forecast to be £3.9m (February 2021 Council report) if no action were taken in each year to close this.

The Local Government Finance Settlement provided some longer-term certainty on key Government finance sources during the period, and the budget documents identified relevant budget pressures each year. The pressures were clearly identified and related to areas such as inflation, pay award pressures and additional waste service costs, all of which appear to be reasonable.

Our review identified the budget setting process involves the extended leadership team identifying potential savings and discussing these savings with members, through interactive workshops. Review of the 2022/23 outturn report for the revenue budget submitted to Executive in September 2023 highlighted savings schemes delivery of £636k compared to a target of £404k, this is mainly due to the additional employment estates rental income generated.

Table 1 over the page highlights savings delivery for the period 2020/21 to 2022/23. Delivery of savings more than target enables the Council to reduce any potential future budget gaps. The Council has met or exceeded planned savings in two out of the last three years which suggests that budget plans for savings are prudent.

Financial sustainability (cont.)

Financial Year	Savings/ Income target (£)	Savings/ income delivered at year end (£)	% delivered against budget
2020/21	904,877	550,990	61
2021/22	249,000	249,000	100
2022/23	404,000	636,000	157

Savings are performance managed using the bi-monthly finance update to Council which highlights performance for individual savings schemes. Our review of the committee minutes highlighted that savings scheme performance is challenged as part of this review, and each update presented to the Executive includes the status of each savings scheme and management action in place to address known risks to delivery.

Our review of savings target delivery by the Council show delivery of savings target has improved over the period 2020/21 to 2022/23.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

Whilst the Council's MTFS does not specifically identify statutory spend compared with discretionary spend, discussions with the Council's Section 151 Officer and other senior officers demonstrated the Council understand the costs associated with statutory and discretionary services. Our review of the MTFS also indicated the Council understands the cost of delivering core statutory services as distinct from discretionary areas of spend on the basis that all spend is directed towards the delivery of core services and achievement of Council Plan priorities. All investment and disinvestment is agreed as part of the budget setting process or by Full Council in year. Our review highlighted there is a coherent link between the Council Plan and the budget.

The Council's Treasury Management strategies for 2021/22 and 2022/23 included the capital strategy, the corporate governance arrangements for treasury management activities, any service objectives relating to the investments, the expected income, costs and resulting contribution, the debt related to the activity and the associated interest costs and the payback period - the Minimum Revenue Provision (MRP) policy.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning.

Capital project proposals reviewed by the Executive are considered and approved by the Full Council, with programme performance being monitored by the Executive quarterly.

The Executive considers how each proposal will help to deliver corporate priorities, savings and the revenue implications of the project (e.g. on-going maintenance costs).

Financial sustainability (cont.)

The Council's capital strategy sets out details of the Council's investment strategy, which includes multiple objectives, with capital bids assessed against the categories in each priority. Priority 1 categories include meeting strategic priorities and statutory obligations (e.g., Health and Safety, Disability Discrimination Act etc) and other capital works required to ensure the existing Council property assets remain open. Priority 2 categories link to good asset management whereby the capital work proposed would either generate capital/revenue income or reduce revenue spending.

The Council spent £3.99m (target expenditure £4.36m) on capital projects in 2021/22. The main areas of expenditure included the use of residential renovation grants including disabled facilities grants (£1.11m), Batson Harbour Depot/Commercial Units (£1.03m), scheduled replacement of plant, vehicles and marine infrastructure (£0.38m), Dartmouth Health and Wellbeing Hub (£0.35m). Delays in capital expenditure were primarily due to construction industry challenges and the availability of suppliers being affected by the challenges facing the construction industry.

The 2022/23 Capital programme outturn highlighted all projects were within the existing budget that had been approved by Members. The Council's capital expenditure amounted to £9.38m in 2022/23.

We consider the Council has financial plans in place which are consistent with capital investment planning.

How the body identifies and manages risks to financial resilience

Our work highlighted financial planning for 2021/22 and 2022/23 budgets included risk assessment and discussion and challenge by the Council was evident in finance papers submitted for approval.

Bi-monthly revenue and capital programme updates to the Council highlight key variances and actions in place to manage performance. Variances are explained in a commentary which includes details of reserves position and movements, and this allows Members to understand any emerging risks to the council's budget delivery.

Any transfers to and from reserves are highlighted as part of the Revenue and Capital outturn report. Chart 1 on page 10 illustrates 2021/22 General Fund and non-earmarked reserve as a proportion of service revenue expenditure in comparison to statistically nearest neighbours based on 2021/22 Revenue Outturn data. This chart demonstrates that the Council is in the mid-range of Councils and is not an outlier in terms of the level of reserves that it can draw upon, should they be needed.

The Council sets a minimum balance for Unearmarked Reserves of £1.5m, with an operating level of a minimum of £2m. This was based on a risk assessment and a sensitivity analysis. The current level of £2.13m at 31 March 2023 is therefore above these levels.

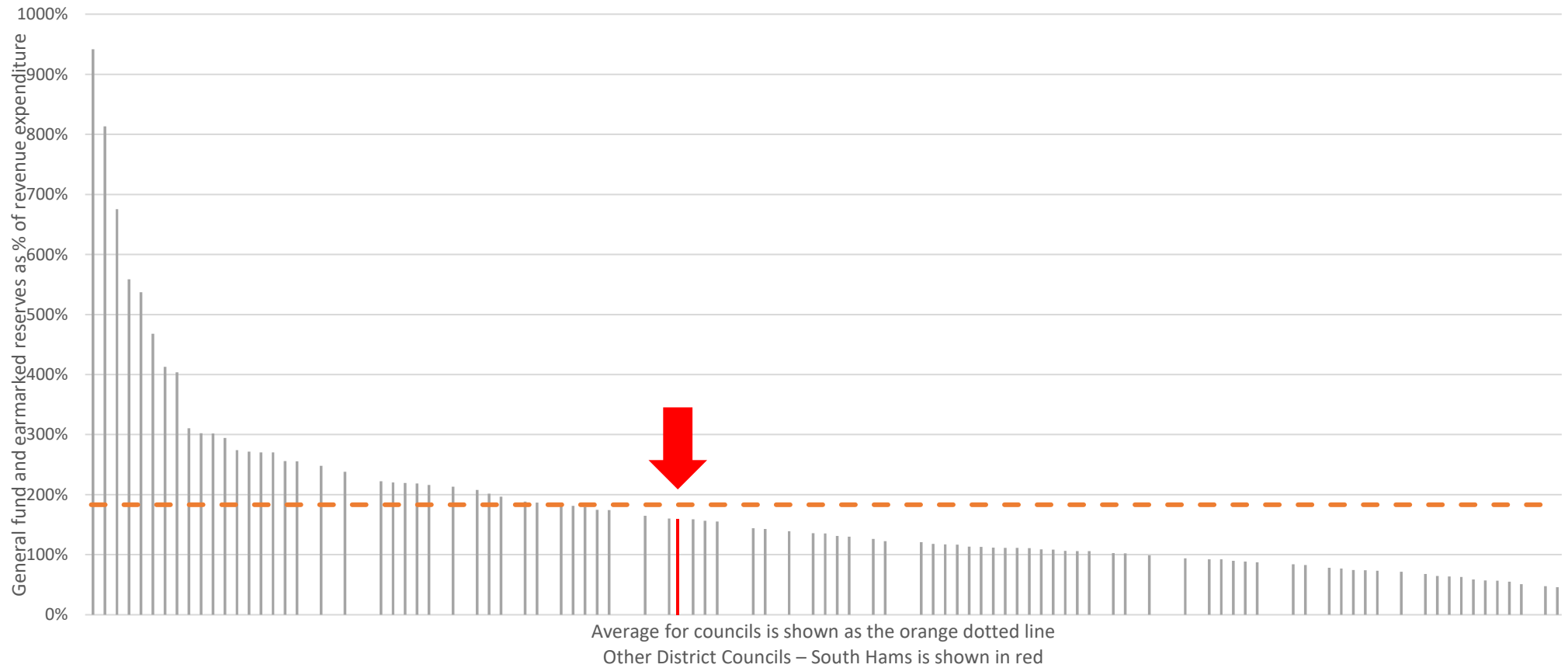
Conclusion

The Council has a track record of appropriate financial management and delivered an underspend (in 2021/22) of £214,000 and £57,000 in 2022/23, after considering central government funding. The Council understands the financial risks which it faced and managed these risks by maintaining the planned level of reserves.

In conclusion we have not identified any significant weaknesses in arrangements to ensure the Council manages risk to its financial sustainability.

Financial sustainability (cont.)

Chart 1 - 2021/22 General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



Governance



We considered how the Council:

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

How the body assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

The Council's approach to risk management is set out within the Annual Governance Statement (AGS) and within the reports taken to Audit & Governance Committee (AGC). The Council has a Risk and Opportunity Management Strategy which was adopted on 4 December 2018. The corporate risk register was refreshed in 2021/22 and risks are logged centrally and scored by each risk owner. SLT review the corporate risk register quarterly and updates are reported to members of the AGC on a biannual basis. In 2021/22 the strategic risk register was reviewed in July 2021 and December 2021, and for 2022/23 in September 2022 and March 2023.

The 2021/22 Audit Plan was impacted by the COVID-19 pandemic with one half of the Internal Audit resources assisting officers in the due diligence process related to the payment of various grants to businesses throughout the year. As well as completing audits that carried over from the 2020/21 plan, the remaining internal audit resources completed thirteen audits, with final reports issued. For five others, fieldwork was completed with draft reports issued as of June 2022. This represented the delivery of 78% of the audit plan (compared to delivery of 70% during 2020/21). Limited Assurance was provided for the following audits: Debtors 2021/22, Council Tax and Business Rates 2021/22, Estates Property & Rents Follow Up and Performance Management (Data Quality) Follow Up. Our review of the minutes of the AGC minutes demonstrated adequate reporting of action plans in place to address weaknesses that had been identified and progress of action plans was satisfactory.

The 2022/23 annual audit plan update, which was presented to the AGC in July 2023, highlighted delivery (final or draft report issued) of 92% of the plan agreed for 2022/23 by May 2023. As at May 2023, three limited assurance opinions were provided relating to the Building Maintenance Works scheduling, Markets and Procurement processes and all reported adequate action plans to address weaknesses were in place. Action plans to monitor management actions to improve the risks for each were regularly brought to the AGC.

Devon Audit Partnership provides internal audit, counter fraud and assurance services to the Council. In the AGS they reported no irregularities to report regarding the day-to-day operation of the Council. During 2021/22 there were twelve cases which related to COVID-19 grant applications, eight of which were identified as potential frauds before any payment was made. Of the remaining four cases, two are being investigated by the National Investigation Service and the Council has been supplying information to assist in these investigations. Recovery of payments in the other two is taking place. The March 2023 update to AGC highlighted there had not been any reported fraud issues in the year to date.

The Council has an anti-fraud, bribery and corruption policy which is overseen by the AGC and our review indicates there is adequate oversight in place. The Council has a range of policies to promote ethical behaviours amongst staff and members, including procurement, whistleblowing, counter fraud and anti-money laundering. The staff induction policy requires staff to read the employee code of conduct and confirm understanding of the policy.

Governance (cont.)

How the body approaches and carries out its annual budget setting process

The budget is agreed by Full Council in February of each year, and as already noted, a budget risk and sensitivity analysis is included within the Full Council papers. The 2022/23 budget was agreed by the Council in February 2022. The process began with the agreement of the MTFs, which set out the budget strategy for the next three years (2022/23 to 2024/25) in September 2021. The Council chose a three-year timeframe for its MTFs, as this aligns to the timescales of the Corporate Strategy, 'Better Lives for all'. The MTFs 2023/24 to 2025/26 was agreed September 2022 - this highlighted timeframe has been mirrored with the 2022 MTFs to provide a balance between long term financial planning and having realistic assumptions to use. This considers the volatility within local government financial planning, due to the lack of certainty from historic one-year financial settlements, with appears to be reasonable.

Budget holders were engaged in the process by identifying savings and through engagement with the Executive. For example, a Joint meeting of the Overview and Scrutiny Committee and the Development Management Committee was held in January 2022 prior to the 2022/23 budget having been reviewed by the Executive again and agreed by Full Council in January 2022. The options to meet the budget gap were identified by the senior leadership team and were then presented to the Executive as part of the draft budget in January 2022.



Governance (cont.)

How the body approaches and carries out its annual budget setting process (cont.)

The Council has strategies in place, such as relating to workforce, and our review highlighted there is good working across the senior officers leadership team to allow early discussion of any changes that would impact upon the MTFs and budget. During 2021/22 performance issues with the waste and recycling service provided by FCC Environment were discussed at the Full Council and remedial actions undertaken to address these performance issues. Our review highlighted that the regular waste services performance updates were sufficiently detailed to enable members to make informed decisions.

In October 2022, following regular monitoring of the performance of the Council's waste and recycling service, the Council decided to terminate the contract with FCC Environment. This was because FCC Environment was unable to provide adequate assurance that it could ensure there were sufficient resources and capacity to deliver the statutory waste and recycling collection services. The Council decided to bring responsibility for delivering the service back in house with effect from 3 October 2022. The Council also decided to end the free garden waste collection service from 31 October 2022 to ensure that there were sufficient resources and capacity to deliver the statutory waste and recycling collection services. The Council expects the on-going revenue costs of delivering the service will be in the region of £1.25m per annum higher than the current budgeted contracted cost, as stated in the Executive report of 12 July 2022. An annual cost pressure of £1.25m has been built into the MTFs for 2023/24 onwards as a result of this. As the Council is taking the service back in October 2022, the increased cost in 2022/23 has been reported as part of the overall budget monitoring report for 2022/23. This provides good evidence of the Council ensuring that the budget remains up to date and reflective of current issues.

The Annual Treasury Management Report for 2021/22 presented to AGC in September 2022 highlighted income from investments during the year was £140,071 which was £62,929 lower than the budget of £203,000 at an average return of 0.07%. The Council's return on investments of 0.07% reflected investments were kept very short term due to concerns over cashflow as there were many unknown variables such as the payment of Business Grants.

The 2022/23 Annual Treasury Management report presented to AGC September 2023 highlighted income from investments was £1,147,385 which is £1,024,385 higher than the budget of £123,000 at an average return of 2.02%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.17% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.

How the body ensures processes and systems are in place to ensure budgetary control

Every budget holder has an accountant and a finance budget partner to support them and to ensure they effectively manage their budget. The support approach differs across budget holders; some receive monthly budget monitoring reports whereas others can access financial information themselves direct from the general ledger. The provision of finance support to budget holders is based on an assessment of key risks, budget size and complexity, to maximise the use of limited finance resources.

The revenue monitoring reports have been taken to the Executive (in both 202/22 and 2022/23) for months 1,2,4,7 and 10 and each of these reports sets out the variance from budget and the management action that is required. 2021/22 and 2022/23 revenue and capital outturns were taken to the September Executive meetings in both 2022 and 2023. Our review confirmed that these regular budget monitoring reports include monitoring reserves with an on-going review of the Council's capital programme.

For 2022/23, the Council produced summary financial statements for the ease of public consumption and to further the transparency and readability of the Council's financial position.

Overall, we are satisfied the Council had appropriate arrangements in place to manage the risks it faces to ensure systems for budgetary control are in place.

Governance (cont.)

How the body ensures it makes properly informed decisions

The Council operates various scrutiny committees which hold senior officers and the Executive to account. The work of the Council's committees is governed by the Constitution. The Constitution is regularly reviewed and updated (most recently July 2022) and is shared with all staff members on joining and is openly available on the Council's website. The Council's AGS sets out how the Council operates, how decisions are made and the policies and are followed to ensure that these are efficient, transparent and accountable to local people. Review of key council committee papers highlighted relevant information is provided to members to allow for appropriate challenge and scrutiny.

Council business is conducted in public unless legislation deems it appropriate for it to be considered in private. Key decisions of officers are published on the Council's website. The Council carries out a range of public consultation. The Council should continue to build on engagement activities adopted during the pandemic. The Council consulted stakeholders on their draft budget for 2021/22 and 2022/23. The communication and engagement plan included a dedicated webpage and media release; communication to members and staff; posts on the internet; intranet and use of social media.

Given the limited engagement achieved in 2020/21 and 2022/23, the Council should consider how it can enhance its stakeholder engagement and empowerment to ensure this is a meaningful process, which supports the development of the budget, MTFS and savings. We have made an improvement recommendation relating to this on page 16.

Monitoring standards

The Council has arrangements in place to monitor compliance with legislation and regulatory standards and to communicate to its staff what behaviours are expected/not expected of them.

The Head of Internal Audit's assessment of the arrangements against the 2018 CIPFA Guidance for Audit provided reasonable assurance that there were no significant weaknesses in internal controls or governance arrangements during the 2021/22 and 2022/23 years. This was corroborated by our 2021/22 and 2022/23 financial statements audit and review of the 2021/22 AGS and 2022/23 AGS.

A range of policies and standards are in place to ensure compliance with the Council's constitution, such as codes of conduct, gifts and hospitality and whistle-blowing policies.

The 2021/22 and 2022/23 AGS highlighted that the Council has approved and adopted a code of corporate governance, which is consistent with the principles of the International Framework: Good Governance in the Public Sector. The AGS is included in the annual review of the Constitution undertaken each year by the Council's Monitoring Officer. To ensure all statutory requirements have been met the statement has been produced in accordance with the CIPFA Delivering Good Governance Framework 2016. The AGS is approved by the AGC in September of each year. In developing its 2021/22 and 2022/23 AGS, the Council formally reviewed its corporate governance arrangements against its Local Code of Corporate Governance.

Based on our review, there is evidence of the Council having arrangements in place to meet legislative and regulatory requirements and associated standards of behaviour. Expected standards of behaviour are detailed in the Council Constitution and the Code of Conduct. We note that in June 2023 the Council (with West Devon Borough Council) won the Senior Leadership Team of the Year category, at the Municipal Journal Achievement Awards.

Governance (cont.)

Monitoring standards (cont.)

Procurement

Procurement in the Council is supported by a shared (with West Devon Borough Council) procurement officer, and a procurement system is used to support the end-to-end procurement process. In 2022/23 Internal Audit highlighted Officers were generally aware of the need to obtain value for money, but there were opportunities to improve the procurement framework which included increasing the available procurement expertise. As a result of the internal audit review finding the Council continues to share an expert Procurement Officer and are also now advertising for a Procurement Support Officer. Other important findings and recommendations from the Internal Audit review will be followed up through the tracking of internal audit recommendations, completed at the Audit and Governance Committee.

Contract Procedure Rules are in place which detail the requirements for procurement activity, supported by advice and assistance from the shared Procurement Officer. The Procurement Officer supports procurement activity, but the Council has identified that additional resource is needed to develop the procurement framework sufficiently. The Council adopted the Devon Districts Procurement Strategy and action plan produced by the Devon Districts Procurement Group, of which the Council is a member. Our review highlighted there has been no specific work in the Council to implement the actions from this. The forthcoming Procurement Act will generate changes to procurement rules that will need to be implemented in late 2023. We have included a follow up of actions arising from the Devon Districts Procurement Strategy action plan in the improvement recommendation on page 17.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks, and we have identified two improvement recommendations on page 16 and 17.



Improvement recommendations



Governance

Recommendation 1

The Council should consider how it can enhance its stakeholder engagement to ensure this provides meaningful responses.

Audit year

2022/23

Why/impact

Meaningful stakeholder responses provide further information to the Council on views and priorities, and can be used to make more informed decisions.

Auditor judgement

Limited stakeholder engagement may not gather adequate feedback of council plans and strategic aims.

Summary findings

Given the limited engagement responses achieved in 2021/22 and 2022/23, the Council should consider how it can enhance its stakeholder engagement and empowerment to ensure this provides meaningful responses, supporting the development of Council objectives including, budget, MTFS and savings setting.

Management Comments

The Council is carrying out extensive stakeholder engagement on its Council Plan for 2024/25 onwards which has been developed based on several discussions through Advisory Group meetings with Executive Lead Members.

The public consultation on the draft corporate plan commenced on Monday 25th September 2023 and ran through until 30th November 2023 – a total of ten weeks.

The consultation included a range of ways to seek views on the draft Council Plan including:

- a. An online public consultation platform with survey.
- b. A dedicated email address to send 'free-text' responses
- c. Two online Parish Council briefings.
- d. Face-to-face meetings between Executive Lead for Economy and each Town Council – with a primary focus on economic support and alignment.
- e. Resident engagement at Ivybridge, Kingsbridge and Totnes Markets.

Improvement recommendations



Governance

Recommendation 2 The Council should ensure the action plan identifying areas for improving procurement control is implemented. The Procurement Officer supports procurement activity, and additional resource is needed to develop the procurement framework and to ensure it is effective in meeting objectives

Audit year 2022/23

Why/impact Adequately resourced procurement department will enable better compliance with required procurement processes and framework.

Auditor judgement Procurement resourcing is not sufficient to ensure compliance with framework requirements.

Summary findings The Council adopted the Devon Districts Procurement Strategy and action plan produced by the Devon Districts Procurement Group of which the Council is a member. There has been no specific work in the Council to implement the actions. The forthcoming Procurement Act will generate changes to procurement rules that will need to be implemented in late 2023.

The Procurement officer provides good assistance to procurements, but additional resource is needed to develop the Procurement framework and to ensure it is effective in meeting objectives.

Management Comments The Council is currently advertising for a Procurement Support Officer post to ensure the procurement service has adequate and additional resource.

The Council has updated the Constitution including Contract Procedure rules with clear responsibilities for procuring managers and commenced the update of the Devon District Procurement Strategy.

The Council has promoted the procurement rules and regulations to officers responsible for buying goods and services across the Council.



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

Improving economy, efficiency and effectiveness



We considered how the Council:

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

How financial and performance information has been used to assess performance to identify areas for improvement

We have reviewed a range of indicators produced by our benchmarking tool 'CFO Insights' (CFOi), which are detailed in table 2 on page 19. These indicators compare the unit costs for a range of services relating to 2021/22 revenue outturn, and highlighted two areas where the unit costs were high in comparison to the Council's statistically nearest neighbours:

- Environmental and regulatory services per head of population (waste services); and
- Other services (which include Parish Council expenditure).

The Council has advised that the high relative unit cost of providing the environmental health service is attributable to the high cost of providing a waste service in a rural setting and the actual rate of inflation on the contract which was 12.2% and was significantly higher than the budgeted provision of 3%. Contract inflation was based on fuel inflation, wage inflation and consumer price index, all of which were higher than when the budget was set. This indicates the Council understands its cost base and the reasons that it may be an outlier.

There are multiple levels of review before reports are compiled for committee meetings and discussion with officers highlighted there is confidence in the accuracy of these reports. Assurance for the control framework is taken from the work of Internal Audit. Pre-briefs are held with members prior to formal meetings to ensure reports are understood. The Overview and Scrutiny Committee (OSC) receives quarterly reporting of performance.

Progress against the Thematic Delivery Plan for targets in The Better Lives for all Corporate Strategy has continued to be regularly monitored by the relevant Lead Members through regular meetings with lead officers. Key performance measure highlights are also provided in the quarterly Integrated Performance Management Report considered by the Executive. The OSC is responsible for on-going review of performance in year.

Our review of the Quarter 4 2022/23 integrated performance report concluded that it provided details of key performance indicators for Corporate Strategy Actions and highlighted that 78% (35 of 45) key performance indicators were on track and 20% (9) were rated as having some issues but have an action plan in place to address. Our review highlights the Council monitors performance against relevant KPIs and when off track they implement remedial actions to improve performance.

The Local Government and Social Care Ombudsman (LGCSO) looks at complaints about councils from members of the public where the complainant considers that a council has not sufficiently addressed their concerns. During 2021/22 the Ombudsman received twenty-seven complaints about the Council, of which five were put forward for investigation. Following detailed investigation, two of those complaints were upheld by the Ombudsman, with one recommendation (Waste related which resulted in an award and recommendations for dealing with waste complaints that were complied with) issued. On average, the Ombudsman upholds 66% of complaints about Councils. The Council has seen 40% of investigated complaints upheld, which is below the national average and an improvement on the Council's performance from 2020/21.

Improving economy, efficiency and effectiveness – benchmarking

Table 2 - Unit Cost table - showcasing budgeted spend within each service area. This unit cost table shows the budgeted spend per 'Service Line'. We have then associated a unit to the service line to calculate a unit cost. The Unit Cost Score analysis then benchmarks the spend against the comparator group e.g other councils. A 'Very High' score would place the authority in the top 20%, with 'Very Low' placing it in the bottom 20%.

South Hams	2021/2022 (£000s)	Unit (population)	Unit cost (£)	Unit cost ranking
TOTAL HIGHWAYS AND TRANSPORT SERVICES (RO) £/head	(2,077)	89,213	(22.05)	Very Low
TOTAL CULTURAL AND RELATED SERVICES (RO) £/head	586	89,213	6.66	Very Low
TOTAL PLANNING AND DEVELOPMENT SERVICES (RO) £/head	1,595	89,213	18.14	Average
TOTAL HOUSING SERVICES (GFRA only) (RO) £/head	1,200	89,213	13.64	Average
TOTAL ENVIRONMENTAL AND REGULATORY SERVICES (RO) £/head	4,818	89,213	54.78	High
TOTAL CENTRAL SERVICES (RO) £/head	2,600	89,213	29.56	Low
TOTAL OTHER SERVICES (RO) £/head	2,387	89,213	27.14	Very High
Total Net Expense (RO) £/head	11,159	89,213	126.88	High

Improving economy, efficiency and effectiveness (cont.)

How the body ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives.

The Council's Constitution sets out how it engages with stakeholders and partners through joint working arrangements, partnership boards and annual appointments to external organisations. The Council seeks resident views when developing proposals by delivering on Consultation and Engagement Strategy. The Joint Local Plan (adopted by South Hams District Council on 21 March 2019, Plymouth City Council on 26 March 2019 and West Devon Borough Council on 26 March 2019) is an example of a strategic partnership in which the Council is represented and ensures agreed actions are delivered. Arrangements are in place to monitor progress through the Authorities Monitoring Report (AMR) which provides an annual update (to Full Council) in the February after the preceding financial year.

The Council developed new joint working and partnership arrangements to respond to the pandemic and ensure that the needs of service users continue to be met. The Council key partnerships include working with Parish Councils to understand and tackle local issues and reinstate Parish-Borough Link Meetings and ensuring that the Council is represented in existing key partnerships / voluntary and community groups. The Council Plan highlights how the pandemic had a lasting impact on the health and wellbeing of local communities. The Council is working together with partners including Devon County Council, the NHS and the voluntary sector to understand the impacts and identify opportunities to enhance community wellbeing.

The Council considered investing in a solar park, and third party advice was commissioned by the Council who based on this advice decided not to invest. Third party advice was also obtained prior to the decisions made to provide additional funding from reserves to Fusion (leisure services) in 2021/22 and 2022/23 to cover shortfalls in income of the leisure management fee. This indicates that the Council take appropriate action to obtain relevant advice on matters that they need additional expertise on.

The Council consulted stakeholders on their draft budget for 2021/22. The online consultation is part of Council engagement online. The Council undertook consultation regarding the "Better Lives for All" plan Thursday 15 July 2021, and the Council undertook a public consultation, providing opportunities for residents and business to engage with the plan. This consultation opened on 21 July 2021 and ran for six weeks and informed content for the Better Lives for All plan priorities.

For 2022/23 the Council consulted stakeholders on an increase in council tax. Despite the attempted engagement, there were limited responses achieved in 2020/21 and 2022/23, and the Council should consider how it can enhance its stakeholder engagement and empowerment to ensure this provides meaningful responses, which supports the development of council priorities including development of annual budget, MTFS and savings.

We have made an improvement recommendation on page 16 relating to stakeholder engagement.



Improving economy, efficiency and effectiveness (cont.)

Where the body commissions or procures services, how it assesses whether it is realising the expected benefits.

The Council has a Sustainable Procurement Strategy, which sets out how procurement will support the Council's long term financial sustainability, drive efficiencies, support local economic growth, and optimise the opportunities for delivering social value.

Our review has not identified examples of the Council failing to consider the risk and rewards when undertaking significant commercial ventures, outsourcing, shared service arrangements or partnerships.

The Council has and continues to undertake significant work in respect of the Plymouth and South Devon Freeport. The Council has published a set of Frequently Asked Questions on its website to aid transparency and public understanding of the Freeport. We also note that, following the May 2023 elections, the Audit and Governance Committee created a Task and Finish Group in respect of the Freeport, with a comprehensive report taken to Executive 30 November 2023.

The Council does not rely heavily on income from commercial activities or its investment portfolio. The Council has not entered significant new commercial ventures, outsourcing, shared services or partnership in 2021/22 or 2022/23. The Council monitors the performance of its two investment properties and reports annually to the Audit and Governance Committee on their performance.

Since the in-sourcing of the Waste and Recycling service, performance has stabilised and improved significantly, and in February 2023, for the first time in over three years, the service achieved the national industry standard performance target of no more than 80 missed bins per 100,000 collections.

The Council have taken steps to reduce the amount of agency resource employed in the waste and recycling services to further provide stability for the service. The introduction of a chargeable garden waste service launched in March 2023.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness ensuring that it made informed decisions and properly managed its risks.



Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council should introduce a performance management framework based upon SMART strategic objectives to ensure delivery of its new corporate plan. This should include monitoring the performance of its strategic partnerships.	Improvement	November 2021	<p>Management Update 24th July 2023</p> <p>Since development and adoption of the Council Corporate Strategy in September 2021, the Council has implemented a performance management framework with SMART strategic objectives set out in a three year delivery plan. The Council have also enhanced performance reporting arrangements which now include-</p> <ul style="list-style-type: none"> - Quarterly reports on progress to Executive against the adopted strategy delivery plan, overview of strategic risks and updates on key capital programmes - 'Deep Dives' into a specific theme through Overview and Scrutiny Committee setting out detailed progress reports - Implementation of service plans aligned to corporate strategy - All employees have an annual objective setting discussion with mid-year reviews - Key Performance Indicator reporting has been enhanced with clear narratives setting out the performance and comparator data provided. During 2021-2023 these reports have been considered by Overview and Scrutiny on two occasions during the year. This will be further enhanced during 2023/24 with KPI reports being considered by the committee at least 3 times during the year. 	Yes	N/A

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
2	The Council should review progress against the actions set out in the Devon Districts Procurement Strategy on a more regular basis, and at least annually. Progress should also be reported to SLT and elected members, for example either via Overview and Scrutiny Committee or Executive.	Improvement	November 2021	Management Update 24th July 2023 There have been delays in formulating the new Devon Districts Procurement Strategy. This work is set to conclude during 2023 with the Council providing input to shape the strategy. Alongside adoption of the new strategy, a reporting process will be implemented. During 2022/23, Internal Audit review of the Procurement function and priorities was undertaken with the update on progress being considered by the Audit and Governance Committee at their meeting on 14th March 2023.	WIP	We raised an improvement recommendation on page 17 relating to follow up of the procurement review action plan.
3	The Council should improve its performance reporting on its capital programme by clearly reporting spend against profiled budget.	Improvement	November 2021	Management Update 24th July 2023 Additional columns have been built into capital monitoring reports to show a profiled budget for each financial year so slippage can easily be identified. In addition the Council now take an annual outturn report to Executive which covers both capital and revenue.	Yes	N/A
4	The Council should have an agreed approach for ensuring staff maintain an awareness and understanding of their obligations relating to the Council's code of conduct.	Improvement	November 2021	Management Update 24th July 2023 New starters to the Council are required to confirm that they have read and understood the Code of Conduct. Furthermore, the Council have recently reminded all staff of the need to comply with the employee code of conduct through highlighting it during the pre-election period alongside the Pre-Election protocol for staff and members. In 2023 the Council will be launching a new mandatory learning and development programme which will include Code of Conduct e-learning.	Yes	N/A

Follow-up of previous recommendations

5	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	The Council should review its whistle-blowing policy annually, and update as necessary.	Improvement	November 2021	Management Update 24th July 2023 The policy was last considered by Audit and Governance Committee on 15th March 2022.	Yes	N/A
6	The Council should monitor progress against its savings plans to elected members on a regular basis throughout the year, including the year end position.	Improvement	November 2021	Management Update 24th July 2023 The annual savings built into the base budget are monitored quarterly via the revenue budget monitoring reports taken to Executive. The reports contain a separate appendix on the savings including the latest projections for the year. In addition this appendix was included in the outturn report taken to Executive for 2021/22 (and 2022/23 will be taken in September 2023).	Yes	N/A

Opinion on the financial statements for 2021/22



Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 31 March 2023.

The opinion was delayed past the statutory deadline of 30 November 2022 due to a national accounting issue affecting all Local Authorities with significant infrastructure assets. The accounting issue which was resolved following updated legislation which was issued after 30 November 2022.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit and Committee on 9 March 2023.

Whole of Government Accounts

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

No issues were noted and we provided our assurances to the NAO on 31 March 2023.

Preparation of the accounts

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

There were limited adjustments made to the draft financial statements provided to us as part of the audit.

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

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



Opinion on the financial statements for 2022/23



Audit opinion on the financial statements

We have not yet issued our audit opinion for the 2022/23 financial year. Our audit work began in November 2023 and we expect to report our findings to the March 2024 Audit and Governance Committee.

For 2022/23, the Council produced summary financial statements for the ease of public consumption and to further the transparency and readability of the Council's financial position. These were presented to the Audit and Governance Committee in December 2023. They have not been audited.



Appendices

Appendix A – Responsibilities of the Council

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

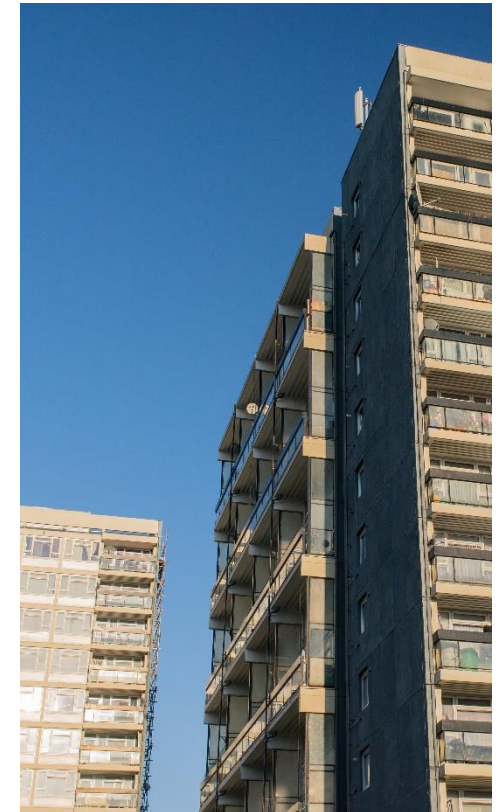
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	16,17

