

Auditor's Annual Report

Derbyshire County Council – year ended
31 March 2021

January 2022



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Derbyshire County Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 22 December 2021. Our opinion on the financial statements was unqualified, but modified to include an emphasis of matters paragraph to draw attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land and buildings.



Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



Wider reporting responsibilities

We have not completed our work on the Council's Whole of Government Accounts return because, as at 10 January 2022, we have not received the group audit instructions from the National Audit Officer

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The Council's financial statements show how it has used public money, its financial health and performance for the year.

Results of our opinion

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended.

Our audit report, issued on 22 December 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021:

"In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21."

How we formed that opinion: the scope of our audit

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and

Accountability Act 2014 and our audit was been conducted in accordance with International Standards on Auditing (UK).

Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

We set and communicate our audit approach in an Audit Strategy Memorandum, and then present our progress and findings, in an Audit Completion Report to the Audit Committee.

Our Audit Completion Report, issued in December 2021 did not report any significant deficiencies in internal controls and a summary of the key matters raised through our audit of the financial statements is set out on the following pages.

2. Audit of the financial statements

Financial statement audit risks

Following our risk assessment approach, we identified the relevant risks to the audit of financial statements, which we categorised as either significant, enhanced or standard.

The definitions of the level of risk rating are given below:

Significant risk: A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk: An enhanced risk is an area of higher assessed risk of material misstatement that requires additional consideration but does not rise to the level of a significant risk

Standard risk: This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement

Risk Area	Risk level	Audit Outcomes
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	Significant	<p>We applied a combination of audit judgement and computer aided audit tools to analyse and perform tests over accounting journal entries.</p> <p>We have not identified any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.</p> <p>We did not identify any significant transactions outside the normal course of business.</p> <p>We have not identified any material weakness in controls or evidence of material management override.</p>
<p>Valuation of Net Defined Benefit Pension Liability</p> <p>The 2020/21 financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>Relevant account balances in the 2020/21 financial statements: Local Government Pension Scheme (LGPS) - £1,026m.</p>	Significant	<p>We reviewed the appropriateness of the LGPS Pension Asset and Liability valuation methodologies applied by the actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information by our consulting actuary.</p> <p>From the work performed, we proposed a £10m adjustment arising from a difference between the valuation information supplied to the actuary as part of the preparation of the financial statements and the final year-end asset performance only known after the financial statements are provided to us for audit. On the grounds of immateriality, including the fact there is no impact on the useable reserves of the Council, this accounting adjustment was not made.</p>
<p>Valuation of land and buildings</p> <p>Property related assets are a significant balance on the Council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated with such valuations, we have determined there is a significant risk in this area.</p> <p>This risk covers: Land & Buildings (£1,198m - Note 14 2020/21 financial statements).</p>	Significant	<p>We engaged our own expert valuer to support our work, which included reviewing the valuation approach adopted by the Council and testing a sample of valuations.</p> <p>Our work and the work of our specialists concluded that the valuation of land and buildings was materially correct.</p>

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2. Audit of the financial statements

Financial statement audit risks (continued)

Risk Area	Risk level	Audit Outcomes
<p>Revenue recognition</p> <p>Under auditing standards, there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. Having considered the make-up of revenue, we believe the risk was prevalent in fees, charges and other service income (being £192m in Note 10 of the 2020/21 financial statements).</p>	Significant	<p>We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.</p> <p>Our transaction testing did not identify any significant issues and there are no matters to bring to Members' attention.</p>
<p>Expenditure recognition</p> <p>In the public sector, this requirement for revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. Having considered the make-up of expenditure, we believe the risk is prevalent in to premises, transport, and supplies & services (being £695m in Note 10 of the 2020/21 financial statements).</p>	Significant	<p>Our transaction testing did not identify any significant issues and there are no matters to bring to Members' attention.</p>
<p>Covid-19 Grants recognition</p> <p>Over March and April 2020, the government provided £3.2 billion of emergency grant funding and over £5 billion of cashflow support to support local authorities through COVID-19. Throughout 2020/21, the Government continued to provide substantial sums of financial support to local authorities, including Derbyshire County Council. Management have had to exercise a level of accounting judgement in relation to these specific COVID-19 grants impacting the financial statements</p>	Significant	<p>Our sample testing of Covid-19 related grant funding did not identify any grants where the incorrect accounting treatment was applied.</p>
<p>SinFin Waste Recycling</p> <p>The long-term waste management contract between Derbyshire County Council, Derby City Council and Resource Recovery Solutions came to an end in 2019. The Council's needed to make a judgement on how to account for the asset in 2020/21.</p>	Enhanced	<p>We evaluated the basis of the accounting judgement and the impact on the financial statements for 2020/21 including the adequacy of disclosures. Our work provided the assurance sought and we are satisfied that costs continue to be recorded as an Asset Under Construction, with a supporting disclosure in Note 2.</p>
<p>Minimum revenue provision (MRP)</p> <p>Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.</p>	Enhanced	<p>Our testing did not identify any issues regarding the Council's charge of £13.8m shown in Note 17.</p>

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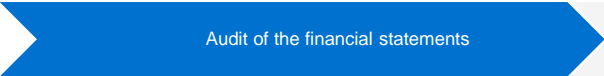
Other reporting responsibilities and our fees

2. Audit of the financial statements

Results of our opinion (Derbyshire Pension Fund)

We have audited the financial statements of Derbyshire Pension Fund ('the Pension Fund') for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. Our audit report, issued on 22 December 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021 and there were no significant matters arising from the work performed. Our fee for this work is £28,077, plus a further £18,200 for the necessary assurance work to support the external audit work at 13 other local authorities.

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Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall Summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Our assessment of what constitutes a significant weakness is a matter of professional judgement, based on our evaluation of the subject matter in question, including adequacy of the Council’s responses. The National Audit Office’s guidance states that a weakness may though be said to be significant if it:

- Exposes (or could reasonably be expected to expose) the body to significant financial loss or risk;
- Leads to (or could reasonably be expected to lead to) significant impact on the quality or effectiveness of service or on the body’s reputation;
- Leads to (or could reasonably be expected to lead to) unlawful actions; or
- Involves a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

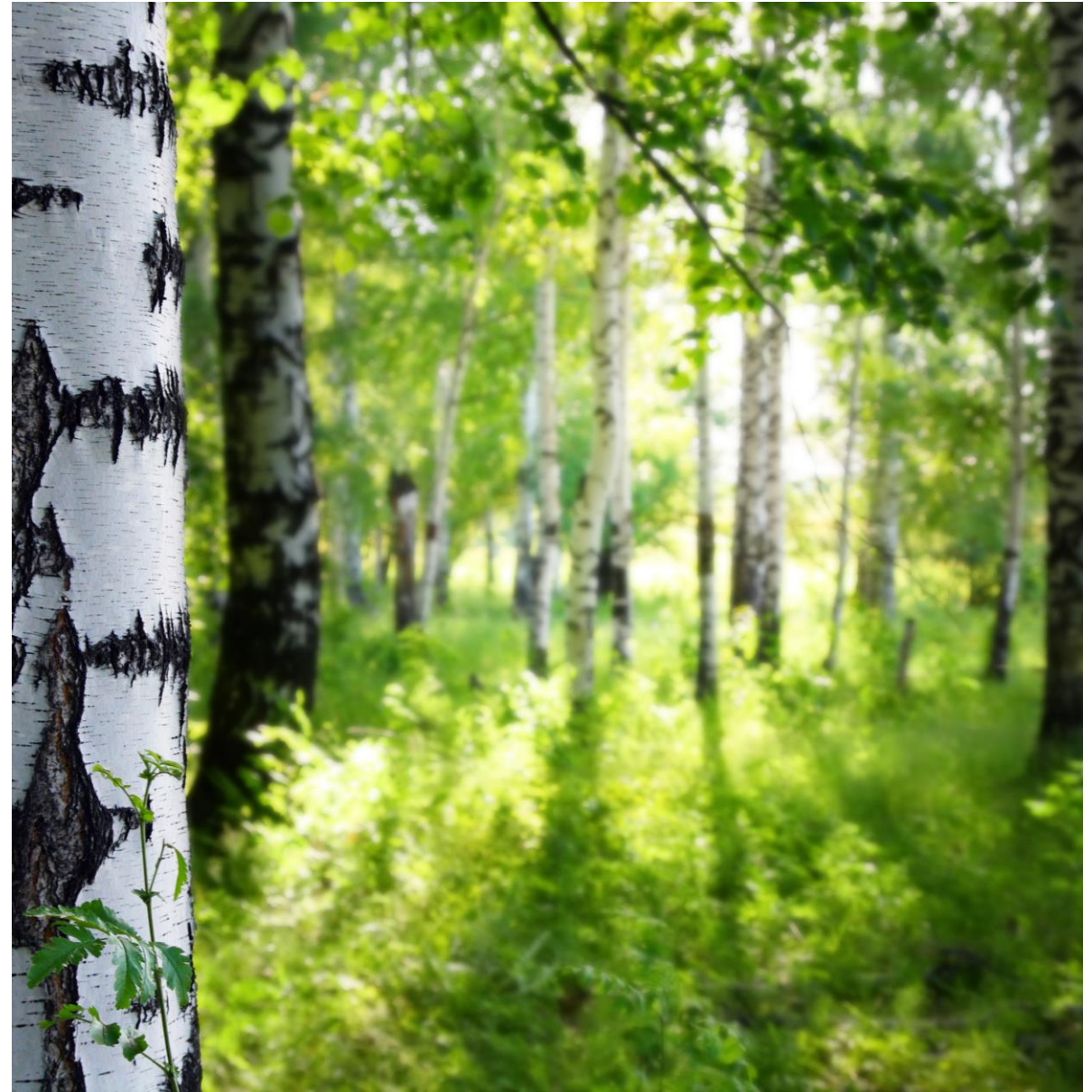
The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	11	No	No
Governance	16	No	No
Improving economy, efficiency and effectiveness	21	No	No

Commentary on VFM arrangements

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.



VFM arrangements: financial sustainability

Covid-19: Context & Financial Impact

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as Derbyshire County Council. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses. Some of the Government's initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council's own costs. We obtained the Local authority Covid-19 financial impact monitoring information published by the Ministry of Housing, Communities & Local Government and Department for Levelling Up, Housing and Communities, which is summarised in the following tables. It shows £6.9billion in additional expenditure and £5.1billion in income losses.

The financial implications of Covid-19 were captured and reported regularly by the Council to the Ministry for Housing, Communities and Local Government (MHCLG) during the year. In 2020-21, the gross cost to the Council in respect of the Covid-19 pandemic was £81.428m, before Covid-19 specific recharges and grant income and Covid-19 general grant income. These gross costs of £81.428m have been fully funded in 2020-21, using £47.639m of available Covid-19 specific recharges and grant income, with the balance of £33.789m funded using the Council's general Covid-19 emergency funding for Local Government receivable for 2020-21 of £45.037m. The remaining balance of the Covid-19 general emergency funding at 31 March 2021, amounting to £11.248m, has been carried forward to 2021-22 in an earmarked reserve. A more detailed analysis is available in Note 50 to the Accounts.

There is no denying the financial impact of the pandemic, but as the Government remains committed to supporting public finances, there is no indication of a significant weakness in the Council's arrangements for financial sustainability as a result of Covid-19.

	2020-21 Additional expenditure due to Covid-19 by class of authority (£'m)	2020/21: Income losses due to Covid-19 by class of authority (£'m)
Shire District	330	1,308
Shire County	2,111	259
Unitary Authority	1,791	1,114
Metropolitan District	1,504	1,053
London Borough	1,127	1,343
Total	6,863	5,077

2020-21: Additional expenditure due to Covid-19 by class and service area (£'m)						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	-	1,255	849	663	414	3,181
Children's social care - total (excluding SEND)	-	95	131	90	63	379
Housing - total (including homelessness services) excluding HRA	63	5	75	42	113	299
Environmental and regulatory services - total	34	68	68	67	64	299
Finance & corporate services - total	48	53	84	77	78	341
All other service areas not listed in rows above	185	635	585	565	395	2,364
Total	330	2,111	1,791	1,504	1,127	6,863

2020-21: Income losses due to Covid-19 by class and source of income (£'m)						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276	-	194	207	538	1,216
Council tax	399	-	218	191	233	1,041
Sales fees and charges	516	195	554	397	476	2,138
Commercial income	82	24	121	204	52	484
Other	33	40	27	54	45	199
Total	1,308	259	1,114	1,053	1,343	5,077

VFM arrangements: financial sustainability

Matters brought forward from 2019/20

As reported in our Audit Completion Report for 2019/20, we confirmed we had:

- reviewed the 2019/20 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
- Reviewed the 2020/21:
 - Revenue and Capital budgets and Medium Term Financial Plan;
 - Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies;
- Considered the Council's latest financial monitoring information and its updated medium term outlook.
- Updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports.
- Reviewed the Council's Annual Governance Statement for any significant issues.
- Considered the general findings from our audit work in other areas.

Our 2019/20 Conclusion was that "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, in all significant respects, Derbyshire County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020."

We therefore had no risks of a significant weakness in the Council's arrangements brought forward from 2019/20 into 2020/21.

2020/21 Financial Statement Performance

We carried out a high level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and the Balance Sheet.

The Council's useable reserves have increased from £332m to £420m in 2020/21, with:

- General Fund & Earmarked Reserves (excluding schools balances) of £303m, up from £259m in the prior year
- School Reserves of £35m, up from £24m in 2019/20
- Capital Reserves of £82m, up from £49m in 2019/20.

The Council's reserves position, as confirmed through our audit of the financial statements, does not indicate a risk of significant weakness in VFM arrangements for financial sustainability.

The Council's balance sheet remains stable over the prior year, with an increase in year end short-term and long-term investments, that have been subject to testing in our audit with no audit adjustments being proposed. Net current assets (being current assets less current liabilities) have increased by 119% from £35m to £76m.

The most significant change in the balance sheet relates to movements in the Council's 'Other non-current liabilities', which is mainly due to the increase in the Council's share of the pension fund net liability (being a deficit position) of £1,027m, up from £651m in the prior year. As shown in Note 48 of the draft financial statements, the main drivers of change being:

- an increase in the value of pension assets from £1,949m to £2,333m
- offset by a larger increase in the value of funded and unfunded pension liabilities from £2,655m to £3,418m.

In the past few years, it is not unusual to see material movements in the net pension liability, where the impact is accounted for via unusable reserves.

Our review of the Council's balance sheet does not give us cause for concern relating to financial stability, nor has it highlighted any risks of significant weakness in arrangements.

VFM arrangements: financial sustainability

2020/21 Financial Performance: Net Revenue Expenditure

We have met regularly with Officers during the year and read the Budget and Performance Monitoring Reports to Cabinet. The Council presents the budget and subsequent monitoring against two sub-totals: one for controllable spend by Cabinet portfolio; and one for the total revenue budget, including corporate costs such as financial risk management and debt charges.

Our review of these reports to cabinet confirms that each report summarises the financial position of the Council to adequately enable Members to assess revenue performance and service performance. In addition, we tracked the financial position as presented to Cabinet over the financial year, as shown in the charts to the right and the tables below, starting with the May 2020 position where the Council, as a result of Covid-19, performed an early review of costs and projections, highlighting, concerns that would require careful management. As the year unfolded, subsequent funding from the Government to support the Covid response eased the financial pressures (see page 12) and the charts show sufficient correlation between the Council's adjusted budget, forecasts and outturn position to indicate that there is no risk of significant weakness in the Council's arrangements for financial planning and budgetary control.

The most significant variances are explained in the narrative report of the financial statements and the Performance Monitoring and Revenue Outturn 2020/21 Report to Cabinet in July 2021. The final underspend is mainly attributed to a £14m underspend on the Adult Care portfolio arising from additional Government funding for hospital discharges; and £9m underspend on the corporate risk management budget through a combination of unused contingency funds, additional grant income and one-off funding returned from the portfolio budgets.

We also compared the performance outturn report presented to Cabinet in July 2021 to the narrative report in the financial statements with no variances arising, confirming that financial information presented to Members is consistent with the financial statements subject to audit.

Overall, the Council's arrangements for reviewing revenue financial performance alongside service performance are adequate.

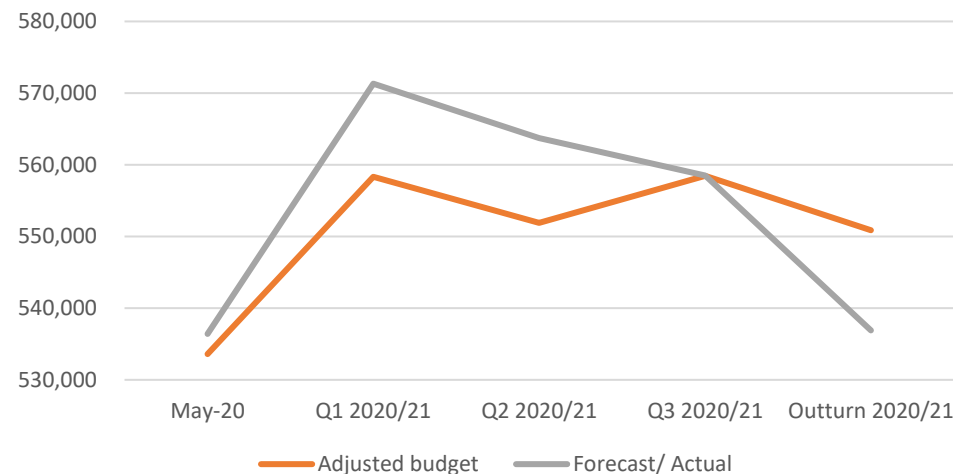
Portfolio Budget

Short Heading	Adjusted budget	Forecast/ Actual	Variance
May-20	533,580	536,377	2,797
Q1 2020/21	558,314	571,321	13,007
Q2 2020/21	551,871	563,706	11,835
Q3 2020/21	558,469	558,521	52
Outturn 2020/21	550,848	536,900	(13,948)

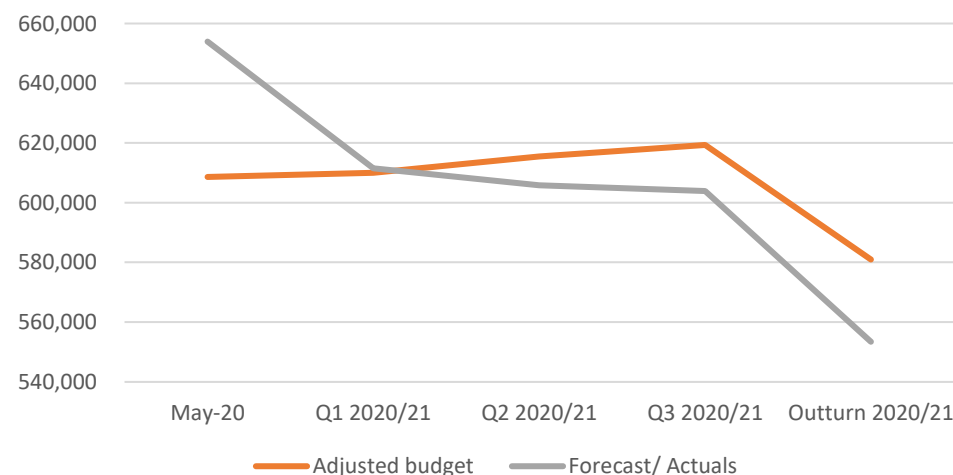
Total Revenue Budget (portfolio budget plus corporate costs)

Short Heading	Adjusted budget	Forecast/ Actual	Variance
May-20	608,578	653,960	45,382
Q1 2020/21	609,968	611,512	1,544
Q2 2020/21	615,488	605,871	(9,617)
Q3 2020/21	619,297	603,873	(15,424)
Outturn 2020/21	581,005	553,375	(27,630)

Total portfolio budget (£'000)



Total Revenue Budget 2020-21 (£'000)



Commentary on VFM arrangements

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.



VFM arrangements: governance

2021/22 Budget Setting and the Medium Term Financial Strategy

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. We have discussed budget preparations with officers during the year and reviewed minutes of meetings to confirm our understanding and assess the arrangements in place:

- The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution. The Constitution requires that a timetable is publicised by Cabinet for making proposals to the full Council in relation to the annual Revenue Budget, along with arrangements for consultation with stakeholders, which should be for a period of not less than six weeks.
- At the Cabinet/CMT meeting on 18 November 2020, it was agreed that a series of meetings would be arranged with Cabinet Members to agree expectations of Council Plan priorities within the context of budget restraint. The meetings took place within the first two weeks of December.
- The Council has in place a Reserves Policy which sets out the framework within which decisions will be made regarding the level of reserves. In line with this framework the balance and level of reserves over the medium term are regularly monitored to ensure they are adequate to manage the risk of the Council. This covers both the General and Earmarked Reserves.

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting, which are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

We have reviewed budget setting, treasury strategy and capital programme reports presented to Cabinet in January 2021 and Council in February 2021. Our review confirms that Members receive information that adequately explains performance, including progress on service plans to allow for challenge and gain assurance on performance.

We have reviewed the 21/22 budget and MTFS at confirming there is an adequate budget setting process and:

- the main assumptions on pay and inflation are not unreasonable for the period when the budget was prepared
- Savings of £72m are required, with £38m identified (see table below), but this is not to a level that would substantially threaten the delivery of the plan because the Council has an the opportunity to address the gap through the 2022/23 – 2024/25 budget setting rounds.
- no significant levels of unsustainable planned use of reserves to bridge funding gaps.
- the impact of Covid-19 does have an effect on financial sustainability and had been considered.

Overall, we are satisfied that the Council's arrangement for setting the budget and medium term financial strategy are appropriate. In doing so, we note that the Medium Term Financial Position does not pose an immediate problem but pressures will be on reserve levels in future years. Careful monitoring of the situation, advance planning and responding quickly to any changes will be of particular importance moving forward.

MTFS Savings by cabinet portfolio	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
Adult Social Care and Health	3,350	11,068	6,905	1,215	185	22,723
Children's Services	85	46				131
Economy, Transport and Environment	1,783	600	1,200	2,870	120	6,573
Commissioning, Communities and Policy	2,196	334	625	1,652	1,000	5,807
Cross departmental	1,000	2,000				3,000
						38,234

VFM arrangements: governance

Decision making arrangements and control framework

We have reviewed Council and Committee Reports and minutes during the year as well as key documents in relation to how the Council ensures that it makes informed decisions and properly manages its risks.

The Council has a full suite of governance arrangements in place. These are set out in the Annual Governance Statement, which is reviewed as part of our audit where we confirmed they were consistent with our understanding of the Council's arrangements in place. The Council also has a code of conduct for elected members and a separate code of conduct for employees. These codes of conduct are in the constitution.

We consider the committee structure of the Council is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

Cabinet is responsible for the overall business of the council and is subject to scrutiny in all it does. The Council is required to publish a list of forthcoming key decisions stating when it will make decisions on major issues. It also publishes meeting papers before a meeting is due to take place and publish the minutes after it has taken place. There are also a number of committees who take decisions on separate aspects of business and these may advise the cabinet or full council where appropriate. The constitution sets out how the council operates, how decisions are made and the procedures it follows to ensure the council is efficient, transparent and accountable to local people. The constitution is divided into 2 parts: articles and appendices. The articles set out the overarching functions and decision-making framework of the council, while the appendices contain the details as to how the functions listed in the articles will be carried out.

Our review of Council and Committee papers confirms that a template covering report is used, ensuring the purpose, consultation, and recommendations are clear. Minutes are published and reviewed by each committee to evidence the matters discussed, challenge and decisions made. This is sufficient to demonstrate that the Council's arrangements in this regard are adequate.

Risk management

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. The Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Cabinet. Our minute review and attendance at meetings confirms regular reports are received and discussed.

We have reviewed the Strategic Risk Register and determined it is adequate for the Council's purposes, given it links the risk to the corporate strategy, includes a risk owner and current and target risk scores, and progress.

From our attendance at the meeting and review of the minutes, there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

Our review of the Annual Governance Statement, the Strategic Risk Register and operating performance of the Audit Committee leads us to conclude that there are no significant weakness in the Council's risk management arrangements.

VFM arrangements: governance

Audit Committee

The Council has an established Audit Committee. The Audit Committee is responsible for establishing and maintaining an effective system of governance in a way that supports the organisation's objectives. It achieves this by:

- Reviewing the work and findings of internal audit and external audit;
- Reviewing the Annual Governance Statement and the financial statements; and
- Reviewing reports on risk management and internal control.

We have reviewed supporting documents and confirmed the Audit Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. In response to Covid-19, the Council moved Committee meetings on-line. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge.

Internal Audit

We have met with management and the Head of Internal Audit regularly during the year, reviewed Audit Committee reports and attended Audit Committee to observe the performance of Internal Audit and the Audit Committee. We have documented our understanding of the Internal Audit function, which is provided by an in-house team.

We reviewed the Head of Internal Audit Annual Report that was presented to Audit Committee on 20 July 2021, where the overall opinion of "Qualified Assurance on the adequacy and effectiveness of the internal control framework, risk management and governance procedures within the County Council. Whilst the arrangements were generally found to be satisfactory, some enhancements have been recommended for senior management to action and improve the control framework."

In our view, the Head of Internal Audit Opinion is sufficiently detailed to explain how the rating was determined. We have confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement to provide assurance that there is no significant weakness in arrangements for 2020/21.

Scrutiny

The Council Commissioned an external review of its scrutiny function from Centre for Public Scrutiny, reporting the results at a Special Combined Meeting of The Improvement & Scrutiny Committees on 3 November 2020. The report contained details in respect of the process undertaken along with the relevant parties involved throughout the process. We have read the report and considered the actions, with the following observations being indicative of adequate arrangements in place, albeit with improvement opportunities:

- "Overall, the Council has a strong ongoing commitment to scrutiny in terms of the level of activity undertaken, and time and resource dedicated across the organisation. Scrutiny's role as part of the democratic decision-making process is respected and valued in the Council and political leaders and Cabinet Members are very supportive
- Scrutiny does make every effort to be strategic and focus on the areas of importance, although in practice it sometimes falls short of this ambition. Scrutiny can very often become a conversation' or an information exchange or become too operational and council performance focused.
- There are missed opportunities for scrutiny to add value and to be an integral part of the Council's corporate plans and overall improvement. This may not be for the want of trying, but for scrutiny to be more strategic, there needs to be change in approach by both scrutiny and the Cabinet, to draw closer together to create a purposeful role and agenda."

VFM arrangements: governance

Regulators

We reviewed the website of OFSTED reading and reviewing the outcome of a focused inspection published in October 2021, which includes the following comment:

- “The determined focus on the provision of services for care leavers by senior managers and elected members since the inspection in 2019, including bringing the service in-house, has resulted in significant improvements. These improvements are visible, tangible and sustained. Improvements to the quality of individual support for care leavers, together with a number of corporate initiatives, have contributed to most care leavers in Derbyshire receiving levels of support consistent with their needs. A comprehensive local offer, effective strategic partnerships, and a passionate and skilled workforce are enabling positive experiences and progress for care leavers. This has been achieved despite the considerable challenges of the COVID-19 pandemic.”

In our view, there is no indication of a significant weakness in arrangements.

Local Government Ombudsman

The Local Government and Social Care Ombudsman looks at individual complaints about councils and some other organisations providing local public services. It also investigates complaints about all adult social care providers (including care homes and home care agencies) for people who self-fund their care.

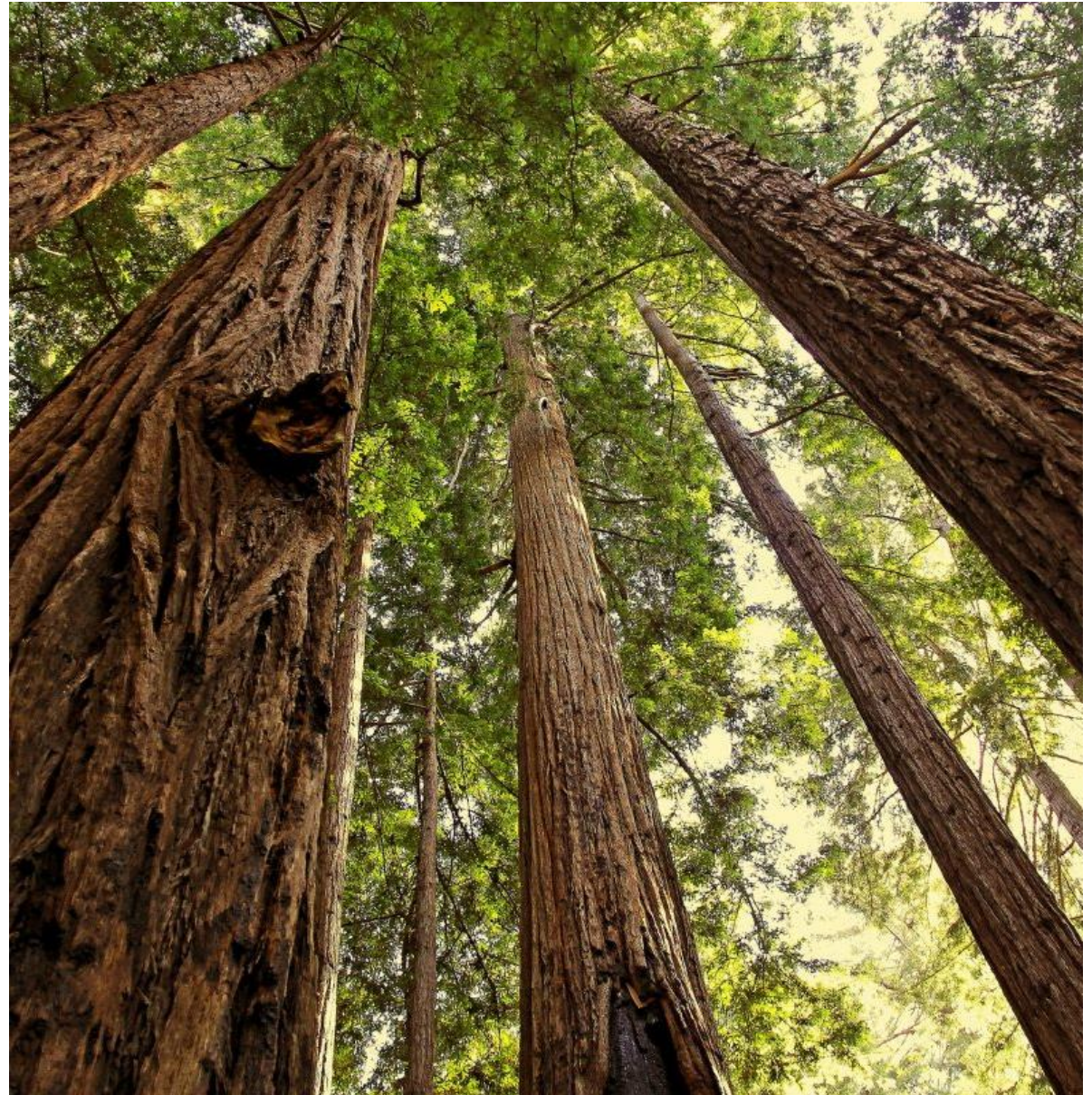
We reviewed the agenda pack and minutes of the Governance, Ethics and Standards Committee from October 2021 where the Council received its annual review letter for 2020/21 from the Ombudsman. For the period ending 31 March 2021, the Ombudsman received 81 complaints and enquiries relating to Derbyshire County Council, which is a decrease of 34% over the prior year, of which there were 19 detailed investigations carried out, of which 6 were not upheld and 13 were upheld. This gives an upheld rate of 68%, against an average of 71% in similar authorities.

In our view, there is no indication of a significant weakness in arrangements.

Commentary on VFM arrangements

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.



VFM arrangements: improving economy, efficiency and effectiveness

Corporate Plan

The Council's corporate plan sets out what it wants to achieve for local residents and communities. The Council Plan is supported by the Financial Plan and an overarching Delivery Plan, and each department has a Service Plan which sets out how that department will deliver the headline initiatives and actions in the Council Plan. The Council's budget endeavours to ensure the provision of the appropriate resources required to deliver the Council's Plan, and the types of action necessary to enable them to be affordable, to allow balanced budgets to be delivered.

We reviewed the Cabinet Report from July 2020 and the Updated Service Plans, which were developed to describe how departments will work towards achieving the outcomes and priorities set out above and on 16 March 2020. The outbreak of coronavirus and the ensuing pandemic has had a significant impact on the work of the Council and as a result a further review and refresh of departmental Service Plans has taken place. The revised departmental Service Plans for 2020/21 amended in July 2021 to ensure there is a continued focus on the Council's work with partners and communities to tackle both coronavirus and climate change. The capital and revenue programmes included in Service Plans accord with the revenue and capital budgets approved by Council in February 2020.

Our review of these documents confirms adequate arrangements are in place to integrate service planning to the corporate plan as well as reporting progress against said plan to Members and the wider public.

Performance monitoring

As part of the Council's performance management framework, regular reports are received and reviewed during the year which show progress against the corporate plan. This includes a detailed annual report where performance management is considered following the year-end. We have reviewed the performance outturn report for 2020/21. This document reports Council's progress and achievements of 2020/21 and provides a look forward to its ambitions for 2021/22. It is approved by the Council and consistent with discussions we have had with officers.

Cabinet receive regular performance reports on the corporate plan, and we reviewed a sample of reports that adequately describe the progress the Council had made on each of the deliverables set out in the plan for the period under review. The Performance and Budget Monitoring Report presents both Council Plan performance and financial budget monitoring and forecast outturn data. The Performance Summary sets out the progress the Council was making on delivering the Council Plan with a focus on the achievement of the Council Plan priorities. The Revenue Budget Position and Financial Summary provide an overview of the Council's overall budget position and forecast outturn. The report also summarised progress on Council Plan deliverables and the controllable budget position by Cabinet Member Portfolio. Reports are also considered by Audit Committee in accordance with the Budget Monitoring Policy and Financial Regulations.

We reviewed a selection of benchmarking data available to us, including the CIPFA financial resilience index and the VFM profiles provided via the Local Government Association (called LG Inform VFM available from the following link: <http://vfm.lginform.local.gov.uk/>), which did not identify any risks of significant weakness in arrangements for 2020/21.

Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for scrutiny and oversight of service and financial performance at the Council.

VFM arrangements: improving economy, efficiency and effectiveness

Partnerships and Commissioning

D2N2

D2N2 is the Local Enterprise Partnership (LEP) where a local assurance framework sets out how D2N2 will continue the process of ensuring value for money, prioritisation, appraisal, business case development and risk management for its Growth Deal programme. It identifies the roles to be taken by D2N2 and its constituent Boards, by the Accountable Body (for D2N2, this is Derbyshire County Council) and by the promoters of projects. It also sets out the process to be followed in selecting priorities for further Growth Deals or other funding programmes if appropriate.

The Accountable Body confirmed that the D2N2 LAF conforms with the LEP Assurance Framework supplied by the Department for Business Innovation and Skills on the 9th December 2014, and the revised National Assurance Framework supplied in October 2016. We have confirmed a Local Assurance Framework is in place and read the Letter from D2N2 Accountable body to Government confirming governance arrangements, the s151 assurance statement and the CEO and Chair assurance statement and, in our view, this evidence is indicative of adequate arrangements in place in relation to the Council's engagement in this partnership.

Joined Up Care Derbyshire and the Local Resilience Forum

The response to COVID-19 across Derbyshire has been multi-agency and led by the Local Resilience Forum (LRF) Strategic Co-ordinating Group (SCG). Working through the Local Resilience Forum structures, partners ensure a coherent, collaborative system-wide response that makes the best of local resources on an ongoing basis. The Local Outbreak Engagement Board provides political ownership and public-facing engagement and communication for outbreak response. There is one board for each local authority area of Derby City and Derbyshire. In July 2020 Derbyshire produced an Outbreak Management Plan which outlined the system wide response to COVID-19. This has proved to be an important operational and technical document which has helped shape the response to COVID-19. To support the delivery of the LOMP, the Council has received additional funding from central Government to support the ongoing response to the COVID-19 pandemic via the Contain Outbreak Management Fund. Cabinet received a report in January 2021 outlining how Derbyshire's initial allocation of Contain Outbreak Management Fund would be spent.

Sustainability and transformation partnerships and Integrated Care Systems bring together local NHS organisations and local authorities (county/ unitary councils) to develop proposals to improve health and the quality of care to provide better services for patients in the areas they serve.

The Council is part of Joined Up Care Derbyshire, also known as Derbyshire's Integrated Care System (ICS) brings together health and social care organisations across Derbyshire. Along with Derby City Council, the Partners in Joined Up Care Derbyshire include NHS Derby and Derbyshire Clinical Commissioning Group;

Chesterfield Royal Hospital; Derbyshire Community Health Services; Derbyshire GP Alliance; Derbyshire GP Alliance & GP Task Force; Derbyshire Healthcare; DHU Health Care; University Hospitals of Derby and Burton; and East Midlands Ambulance Service.

We read and reviewed an independent report on System Shared Decision Making, issued in April 2021. The report did not highlight any significant concerns and noted that good progress had been made in the development of effective system wide decision making. We have also reviewed the Annual Governance Statement, which includes a specific section on the Council's response to Covid-19 and are satisfied that there is no indication of a significant weakness in arrangements relating to the partnership working through Joined Up Care Derbyshire.

Better Care Fund (BCF)

On 03 December 2020 the Department of Health and Social Care, Ministry of Housing, Communities and Local Government, and NHS England published the Better Care Fund (BCF) planning guidance for 2020/21. The details of allocations of funding for the BCF 2020/21 were made available in February 2020 as per the guidance the planning template was not submitted nationally but agreed locally to ensure the national conditions were met.

We reviewed papers of the Health and Wellbeing Board for April 2021 and September 2021, which confirmed that:

- The 2020/21 plan had been developed in conjunction with key partners through the Joint BCF Programme Board and its Monitoring and Finance Group. The final plan was approved by the Joint BCF Programme Board, a delegated subgroup of the Derbyshire Health and Wellbeing Board (HWB), at its meeting on January 18th 2021, the section 75 was updated in March 2021.
- The Derbyshire 2020/21 BCF Plan was, in effect, a continuation of the 2019/20 plan, with the overarching vision and aims of the plan the same as established in 2015/16.

Note 35 of the Council's Financial Statements explains the financial income and expenditure of the better care fund, with DCC contributing £44m to the £104m pooled fund, which was fully spent in 2020/21. Our testing of the financial statements has not identified any material issues over these disclosure notes.

Based on our review, as explained above, there is no indication of a risk of significant weakness in the Council's arrangements across any of the above mentioned significant partnerships.

VFM arrangements: improving economy, efficiency and effectiveness

Partnerships and Commissioning (continued)

Sinfin Waste Treatment Plant

Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service.

In April 2019, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice

During 2020/21 work has continued to determine the condition and capability of the new waste treatment. This work is being carried out by Renewi UK Services Ltd. The Council (along with the City Council) continued in 2020/21 to preserve and assess the Waste Treatment Plant at Sinfin to establish the cost of remediation, future operation and Estimate Fair Value. This work continued throughout 2020/21 with the support of professional advisors. Due to ongoing measures introduced to counter and manage the Covid-19 outbreak, progress on site has been affected. To date, no settlement on an Estimated Fair Value with

the funders has been agreed and discussions and negotiations are expected to continue through 2021/22.

We have met with officers of the council, reviewed the financial statements and conducted a review of local press and reports to Members to understand the position regarding Sinfin for 2020/21 and we have identified the following as being indicative of **adequate arrangements** are in place:

- Contracts in place to maintain associated service and maintenance of the facility.
- The appointment of legal and technical advisors and continued joint working with Derby City Council.
- Regular officer led meetings and work plans in place, including reporting to Members and Cabinet.
- Incorporation of Waste Treatment solutions in both the strategic risk register and therein subject to regular review and oversight through the risk management arrangements in place for the Council.
- Incorporate of Waste Treatment solutions into the departmental service plans and therefore the Council's performance management arrangements to support the achievement of the corporate plan.

When	What
2004	Derbyshire County Council and Derby City Council entered into a joint bid to build two waste treatment centres (including Sinfin).
2009-2011	Period of dispute over planning permission that was escalated through to the High Court.
2017	The waste treatment centre was due to open in Sinfin in 2017, but it was unable to pass the certified performance tests required to bring it into full service.
2017 onwards	The Councils task Resource Recovery Solutions Derbyshire (RRS) to resolve the ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service.
April 2019	In April 2019, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project.
August 2019	The banks funding the project issued a legal notice and the agreement with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant was cancelled. A new contract put in place by the councils to make sure waste that residents cannot recycle or choose not to recycle continues to be dealt with and that recycling centres and waste transfer stations continue to operate. These services continue to be run by waste management company Renewi UK Services Ltd, under a two-year (plus six-month) contract.
March 2020	Onset of Covid and lockdowns.
2020/21	Legal and technical advisors appointed to support the Council (along with the City Council) to preserve and assess the Waste Treatment Plant to establish the cost of remediation, future operation and Estimate Fair Value.
March 2021	Discussions over a settlement figure for the plant are still ongoing between the financial backers and both the city and county councils
November 2021	Cabinet members at both Derby City Council and Derbyshire County Council met in private to approve the drawing up of a business case that compares two options: to rectify and use the facility; or to close the facility and dispose of the councils' waste using a third party.

04

Section 04:

Other reporting responsibilities

4. Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. As at the date of reporting, we have not received instructions from the NAO to enable us to complete this work.

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