New Forest
DISTRICT COUNCIL

NOTICE OF MEETING

Meeting:	**AUDIT COMMITTEE**
Date and Time:	**FRIDAY, 28 JANUARY 2022, AT 9.30 AM***
Place:	**COUNCIL CHAMBER - APPLETREE COURT, BEAULIEU ROAD, LYNDHURST, SO43 7PA**
Enquiries to:	**E-mail: andy.rogers@nfdc.gov.uk Tel: 023 8028 5070**

PUBLIC PARTICIPATION:

Members of the public may watch this meeting live on the Council's website.

***Members of the public may speak in accordance with the Council's public participation scheme:**

(a) immediately before the meeting starts, on items within the Audit Committee's terms of reference which are not on the public agenda; and/or

(b) on individual items on the public agenda, when the Chairman calls that item. Speeches may not exceed three minutes.

Anyone wishing to speak should contact the name and number shown above no later than 12.00 noon on Tuesday, 25 January 2022.

Kate Ryan
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This Agenda is also available on audio tape, in Braille, large print and digital format

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AGENDA

Apologies

1. ELECTION OF CHAIRMAN OF THE COMMITTEE

To elect a Chairman of the Committee for the remainder of the municipal year.

2. MINUTES

To confirm the minutes of the meeting held on 29 October 2021 as a correct record.

3. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

4. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

5. EXTERNAL AUDIT RESULTS REPORTS 2021 (Pages 3 - 52)

To consider the External Audit Results Report 2021.

6. HOUSING BENEFIT AUDIT REPORT 2021 (VERBAL REPORT)

To receive a verbal update on the Housing Benefit Audit.

7. FINAL ANNUAL GOVERNANCE STATEMENT 2021 (Pages 53 - 62)

To consider the Final Annual Governance Statement for 2021.

8. FINAL ANNUAL FINANCIAL REPORT 2021 (Pages 63 - 182)

To consider the Final Annual Financial Report for 2021.

9. MEASURES TO IMPROVE LOCAL AUDIT DELAYS (Pages 183 - 194)

To receive an update on measures to minimise local audit delays

10. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) (Pages 195 - 238)

To note a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

11. STRATEGIC RISK REGISTER UPDATE (Pages 239 - 244)

To receive an update on the Strategic Risk Register.

12. INTERNAL AUDIT PROGRESS REPORT 2021/22 (Pages 245 - 260)

To receive the Internal Audit Progress report for 2021/22.

13. TREASURY MANAGEMENT STRATEGY 2022/23 (Pages 261 - 284)

To consider the Treasury Management Strategy for 2022/23.

14. INVESTMENT STRATEGY 2022/23 (Pages 285 - 292)

To consider the Investment Strategy for 2022/23.

15. AUDITOR APPOINTMENT 2023/24 - 2027/28 (Pages 293 - 298)

To consider proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24

16. WORK PROGRAMME (Pages 299 - 300)

To note the Committee's Work Programme.

To:	**Councillors**	**Councillors**
	Alan O'Sullivan (Chairman)	Jack Davies
	Emma Lane (Vice-Chairman)	Martyn Levitt
	Alan Alvey	Ann Sevier
	Hilary Brand	John Ward

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New Forest District Council
Audit Results Report

Year ended 31 March 2021

January 2022

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EY

Building a better working world

Agenda Item 5

17 January 2022

Members of the Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43 7PA

Dear Audit Committee Members

2020/21 Audit Results Report

We are pleased to attach our audit results report summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 28 January 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on New Forest District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 28 January 2022.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee members and management of New Forest District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of New Forest District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee members and management of New Forest District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

	Planning Materiality	Performance Materiality	Audit Differences
Planning	£2.454 million	£1.840m	£0.123m
Final	£2.368 million	£1.776m	£0.118m

Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The most significant impact of the revised standard has been on the gross pension liability. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. In relation to the IAS19 liability, neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We have involved our pensions specialists in order to complete this work. The results of this exercise showed the actuarial estimate to be accurate within a reasonable range.

Accounting for the Furlough Scheme

Payments under the Furlough Scheme had been included as an inherent risk in our Audit Plan. However, at year end it was confirmed that these payments were below our materiality during 20/21 and therefore has been removed as an area of audit focus.

Group Accounts

Following the increase in the activity of the subsidiaries of New Forest District Council, the entity has produced group accounts. The consolidated financial statements have therefore also required auditing alongside the single entity accounts. We have included these accounts as an area of audit focus as this is the first time the council are producing group accounts and therefore the risk of material misstatement is considered to be higher.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Executive Summary

Scope update

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

We have substantially completed our audit of New Forest District Council's financial statements for the year ended 31/3/2021 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

The key outstanding areas are:

- Group Accounts Assessment
- Covid-19 grants testing;
- Going concern assessment and disclosure review
- Completion of Value for Money work
- Final review of completed audit work by manager and Associate Partner.
- Closing procedures; including checking any adjustments, the consistency of the 'other information' to the final accounts, and subsequent events review.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified 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; and
- 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.

Executive Summary

Status of the audit – Value for Money

Our work on the Value for Money commentary to be included in the Auditors Annual Report is still to be concluded. However, at this stage we can confirm we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

Recognising the pressures in the local audit system, the NAO's guidance for 2020/21 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements. Our current aspiration is not to use the full extended time period for our report in respect of the Council. We will update you should this change for any reason.

Audit differences

At the time of this report we note two unadjusted audit differences, details of which can be found in Section 4 Audit Differences. These are not individually or cumulatively material to the accounts.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are still to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the instructions are yet to be issued. We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipate having no issues to report. However, we will not be able to issue the audit certificate at the same time as the audit opinion, as we cannot certify the completion of the audit until this work is completed.

We have no other matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of New Forest District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud risk – Misstatements due to fraud or error:

- Work in this area is complete subject to final review – no matters to report.

Fraud Risk: Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

- Work in this area is complete subject to final review – no matters to report.

Significant Risk: Valuation of Land and Buildings (FV/EUV) and Investment Properties

- Work in this area is complete subject to final review.
- We challenged the valuer in particular on the valuation of Salisbury Road Parade
- We have concluded that this asset is overstated by and estimated value of £150k
- No other matters to report

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Significant risk: New Financial Ledger

- Work in this area is complete – no matters to report.

Fraud risk: Compensation Scheme for Sales, Fees and Charges

- Work in this area is complete – no matters to report.

Other Area of Audit Focus: Valuation of Land and Buildings (DRC)

- Work in this area is complete subject to final review – no matters to report.

Other Area of Audit Focus: Valuation of Council Dwellings

- Work in this area is complete subject to final review – no matters to report.

Other Area of Audit Focus: Pension Liability Valuation

- We have identified a difference of £334k between the Pension fund auditor's calculation of the closing asset position for NFDC and that reported by the actuary

Executive Summary

Areas of audit focus

Other Area of Audit Focus: Accounting for Covid-19 related grant income

- Following recent receipt of working papers from the Council, work in this area is to be completed

Other Area of Audit Focus: Group Accounts

- Following recent receipt of working papers from the Council, work in this area is to be completed

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council or Management.

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Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

Independence

Please refer to Section 8 for our update on Independence. There are no significant matters to draw to your attention.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

Significant Risk

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What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- We have considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

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What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.

Significant Risk

What did we do?

Our approach focused on the following:

► We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.

► At year end the total value of REFCUS items were below our materiality threshold and therefore specific testing in this area was not required.

► When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

Subject to final review, we have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures, impacting these balances.

Areas of Audit Focus

Other areas of audit focus

Valuation of Land and Buildings (FV/EUV) and Investment Properties

What is the risk?

Property, Plant and Equipment land and buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.

Significant Risk

What judgements did we focus on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's internal valuations expert, including key assumptions of:
    - Yields
    - Future forecast income
    - Asset condition
- Ensuring the information supplied to the valuer in relation to New Forest District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from the Internal Valuer.

Other areas of audit focus

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Considered any specific changes to assets that should have been communicated to the valuer;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements

What are our conclusions?

Our work in this area is complete subject to final review.

We have identified 1 misstatements in relation to the Salisbury Road Parade. The value has been assessed to be overstated as the yield is considered to be too low, and no purchasers costs have been included in the valuation. However, we consider valuations to still be materially correct.

The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.

We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.

Significant risk

New Financial Ledger

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What is the risk?

Under ISA 315, a change in the IT environment may indicate a risk of material misstatement.

From the 1/4/2020 the Council introduced its new financial management system. Data was migrated over to the new system and the Council's 2020/21 financial statements will be prepared using data taken from the new system.

We therefore consider there to be a significant risk that the financial statements could be materially misstated if data has not been appropriately transferred from the old system to the new.

Significant Risk

What did we do?

Our approach focused on the following:

- Performed testing on the opening balances within the new GL, agreeing them to the closing balances of the old system.
- Reviewed reconciliations that have been performed between the old and the new system by the client.
- Reviewed the work performed by internal audit relating to the system changeover.
- Reviewed the new system to confirm whether it improves accounting practices and reduces the overall likelihood of material misstatements including:
  - Reviewed the system code mapping compared to the prior year
  - Reviewed the training provided to users of the system

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of errors in the data transfer of opening balances to the new system.

We identified no issues arising from the work performed by internal audit relating to the system changeover

Significant risk

Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges

What is the risk?

As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.

Significant Risk

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council in their calculation of lost income.
- Ensuring the information supplied to Central Government was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the submission.

What did we do?

We focused on the following:

- Gained an understanding of the Council's process for completing the grant return to Central Government.
- Assessed whether those returns appropriately follow the guidance.
- Confirmed whether the return is supported by relevant and appropriate evidence.
- Ensured the grant is appropriately accounted for.

What are our conclusions?

We considered the Council's process for completing the grant return to Central Government was reasonable and appropriate.

We have not identified any instances of inappropriate judgements being applied and follow the specified guidance, and is supported by relevant and appropriate evidence.

We confirmed the grant was correctly accounted for in the financial statements.

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Other areas of audit focus

Valuation of Land and Buildings (DRC)

What is the risk?

Land and Buildings valued at Depreciated Replacement Cost (DRC) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Assets valued at DRC are not as significantly affected by Covid-19 as those assets valued at fair value or existing use value , but there is still a high level of judgement.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's internal valuations expert, including key assumptions of:
    - Build cost and location factor
    - Professional fees and external works
    - Asset condition

What did we do?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements,

What are our conclusions?

Subject to final review, our testing has identified no material misstatements.

Assets have been revalued within a 5 year cycle, and assets not revalued in year are considered to be materially correct.

We have not identified any instances of inappropriate judgements being applied.

Other areas of audit focus

Valuation of Council Dwellings

What is the risk?

As with Land and Buildings, the value of Council Dwellings in the Council's accounts are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What judgements are we focused on?

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We focused on the following:

Property value based on external market data for equivalent properties in the local area.

This is based on the comparable range of property sales of similar characteristics and adjusted for location. For instance the characteristics of the property depending on the geographical, number of bedrooms and type.

What did we do?

- Evaluated the application of the Beacon Methodology;
- Tested a sample of Council Dwellings valuations against equivalent property market sales
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

Subject to final review, our testing has identified no material misstatements.

The Beacon Methodology has been correctly applied and properties have been assessed to be appropriately classified within each beacon.

Council dwelling valuations are in line with current market data.

We have not identified any instances of inappropriate judgements being applied.

Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 requires the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund asset is a material and sensitive item and the Code requires that this be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Aon Hewitt.
- Ensuring the information supplied to the actuary in relation to New Forest District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Aon Hewitt.

What did we do?

- Liaised with the auditors of the administering authority (Hampshire County Council), to obtain assurances over the information supplied to the actuary in relation to NFDC.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- In accordance with the new ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work.

What are our conclusions?

Our testing subject to final review has identified no material misstatements.

We have concluded that we could rely on the work of the Pension Fund actuary. We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.

The Pension Fund auditor identified an error in the actuary's closing gross asset value of the fund which when applied to NFDC results in an immaterial estimated difference of £334k.

We have confirmed the values and entries from the actuarial report have been fully reflected in the Council's financial statements.

The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.

Other areas of audit focus

Accounting for Covid-19 related government grants

What is the risk?

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

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What judgements are we focused on?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

What did we do?

On a sample of the grant and funding population we performed the following:

- Reviewed the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;
- Reviewed whether any initial conditions are attached to grants impacting their recognition;
- Assessed whether the accounting appropriately follows those judgements; and
- Checked the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

What are our conclusions?

Following recent receipt of working papers, work in this area is currently ongoing

However, we have yet to identify any material misstatement as a result of our work to date

Other areas of audit focus

Group Accounts Preparation

What is the risk?

For the first time, the council have prepared a Group Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet which consolidate the accounting entries for Appletree Property Holdings Group Ltd. There is a risk that the consolidation has not been correctly performed or appropriate disclosures have not been made in the accounts.

What did we do?

- We have performed scoping over the subsidiaries to determine the specific scope engagements and have undertaken audit procedures on those areas in scope to ensure the accounting entries had been properly prepared as part of the consolidation.
- We have tested a sample of assets held within the subsidiaries, in line with our significant valuation risk over PPE assets. We have performed this work in full without the assistance of the component auditor. This was considered to be the most efficient manner to achieve this assurance. Those audit procedures undertaken are the same as those set out in response to our significant risks in respect of valuation.

What are our conclusions?

Following recent receipt of working papers in relation to consolidation entries for the Group CIES and Balance Sheet, work in this area is currently ongoing.

Within the published set of group accounts we identified issues in relation to the group MIRS, that:

- The format was not in line with expectation as per the CIPFA Code;
- An expected line for adjustments between group accounts and authority accounts was missing; and
- It did not agree to the group CIES or Balance Sheet.
- There were no associated disclosure notes, including where we would expect them for the areas where the group balances materially differ from the single entity balances.

We are working with the officers to address the above issues, and ensure that all the principles of group accounting are correct in the first year of implementation

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW FOREST DISTRICT COUNCIL

Opinion

We have audited the financial statements of New Forest District Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 57, and the Expenditure and Funding Analysis,
- Housing Revenue Accounts Income and Expenditure Statement and the related notes 1 to 7, and
- Collection Fund and the related notes 1 to 7

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Financial Report, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the Annual Financial Report for the year 2020/21

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Draft audit report

Our opinion on the financial statements

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

We have nothing to report in this regard

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.
- We are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year 31 March 2021.

We have nothing to report in these respects

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 3, the Chief Finance Officer is responsible for the preparation of the Annual Financial Report for the year 2020/21, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

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.

Auditor's responsibilities for the audit of the financial statements

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

Draft audit report

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) ,
- The Local Audit and Accountability Act 2014,
- The Accounts and Audit Regulations 2015,

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how New Forest District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance and the monitoring officer and obtaining and reviewing documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our review of the Council's committee minutes, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure, and management override of controls and to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we reviewed the Council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

Draft audit report

Our opinion on the financial statements

To address our fraud risk of management override of controls, in common with all audits under ISAs (UK), we perform specific procedures to respond to the risk. We tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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

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Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criterion issued by the Comptroller and Auditor General in April 2021, as to whether the Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the New Forest District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the New Forest District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Use of our report

This report is made solely to the members of the New Forest District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Forest District Council and the New Forest District Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

There are no adjusted items to be recorded at this time

We report to you any uncorrected misstatements greater than our nominal value of £118k.

There are two uncorrected misstatements to bring to your attention at the time of writing this report:

- PPE Valuation (Salisbury Road Parade) judgemental misstatement (overstatement) of £150k
- Pension Fund Closing Asset judgemental misstatement (understatement) of £334k

As the difference is not above our materiality level, we conclude that the balance is materially fairly stated and do not anticipate modifying our audit opinion in respect of these matters.

As the audit work is still in progress, further issues may yet arise.

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

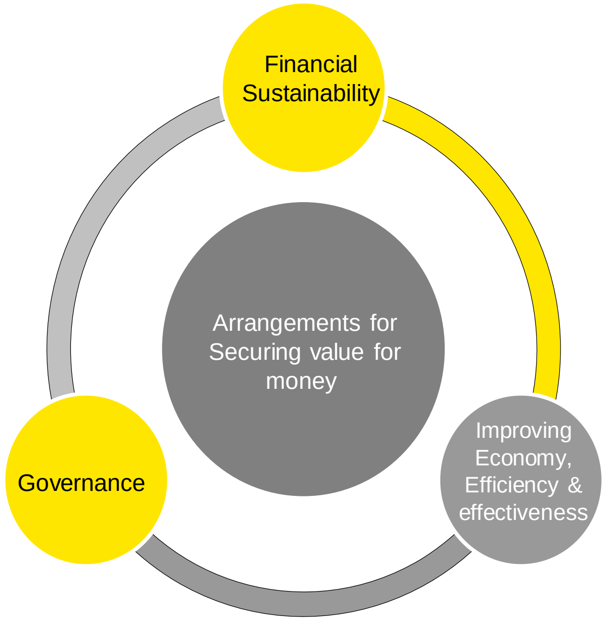
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and Status of our VFM work

We have previously reported to the Council that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remains ongoing, but at this stage we have not identified any risks.

At the date of this report we have considered whether the outstanding VFM procedures have an impact on our audit opinion on the financial statements and determined that they do not. We expect to complete our VFM procedures by the time of signing of the opinion.

We will also issue our VFM commentary in the Auditor's Annual Report.



06 Other reporting issues

Other reporting issues

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Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We are unable to complete the WGA procedures as the NAO has yet to issued the group instruction as HM Treasury have yet to issue the guidance to Local Authorities.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the New Forest District Council’s financial reporting process. We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the New Forest District Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the New Forest District Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention

08 Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, no written proposal to provide non-audit services has been submitted.

We confirm that for 2020/21 we have not undertaken non-audit work.

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Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Council.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2021.

We confirm that we have not undertaken non-audit work.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee	42,721	42,721	42,721
Scale Fee Rebasing		19,543	
Revised Proposed Scale Fee	42,721	62,624	42,721
Scale Fee Variation (1, 2)	TBC	TBC	17,983
Total Audit Fee	TBC	TBC	60,704

1. The PSAA has determined the final scale fee variation from 2019/20 to be as shown. This is a combination of our scale fee rebasing and scale fee variation submission and represents 59% of our original submission.
2. The PSAA published guidance for 2020/21 scale fee variations in August 2021 which we have shared with management. This notes the additional audit requirements in 2020/21 onwards for VfM and estimates and the impact this is expected to have on fees. As work is still ongoing at this time, we are unable to quantify a final fee but can confirm it will take into account the PSAA guidance, which indicates a minimum for these two areas of £8,500.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

EY UK Transparency Report 2021 | EY UK

09 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – June 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report – June 2021
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – January 2022

Appendix A

Required communications	What is reported?	Our Reporting to you: When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about New Forest District Council's ability to continue for the 12 months from the date of our report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report – January 2022
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – January 2022
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report – January 2022

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Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – January 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Results Report – January 2022
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	We have not identified any significant deficiencies in internal controls
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report – January 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – January 2022
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report – January 2022 No such circumstances identified

Appendix B

Draft Management Representation Letter

Management Rep Letter

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of New Forest District Council ("the Group and Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of New Forest District Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

Management representation letter

Management Rep Letter

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group and Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: January 2022.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (27 November 2020) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third

Management representation letter

Management Rep Letter

parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 56 to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as described in the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension liability and disclosure, property, and plant and equipment valuations, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities and the valuations of PPE and IP assets, have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Management representation letter

Management Rep Letter

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

(s151 Officer)

____

(Chairman of the Audit Committee)

Appendix C

Implementation of IFRS 16 Leases

In previous reports to the Council, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the authority's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: • Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. • Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases • Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The Authority needs to agree on certain policy choices. In particular: • Whether to adopt a portfolio approach • What low value threshold to set and agree with auditors • Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components • What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the Council is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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AUDIT COMMITTEE – 28 JANUARY 2022

FINAL ANNUAL GOVERNANCE STATEMENT – 2020/21

1. INTRODUCTION

1.1 The Audit Committee considered the draft Annual Governance Statement for 2020/21 on 2 July 2021, ahead of its inclusion within the Financial Statements.

2. THE ANNUAL GOVERNANCE STATEMENT (AGS)

2.1 The Annual Governance Statement reflects predominately on matters arising during the financial year 2020/21, but must also reflect on any significant matters up until the date of signing by the Chief Executive and Leader of the Council.

2.2 A couple of updates have been made to the AGS since the draft that was presented in July:

- Reference has been made in note 2 of section 4 to the appointment of the Council's new Chief Executive
- Note 22 has been added to section 4 providing information on a recent issue; this has also been reflected in the updated action plan.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial consequences arising directly from this report.

4. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

4.1 There are no equalities & diversity or environmental matters associated with this report.

5. CRIME & DISORDER IMPLICATIONS

5.1 There are no crime and disorder issues arising directly from this report.

7. RECOMMENDATIONS

7.1 That the Audit Committee approves the Final Annual Governance Statement for the Financial Year ended 31st March 2021 as reported in Appendix 1.

For Further Information Contact

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Chief Finance Officer (S151)
alan.bethune@nfdc.gov.uk

Grainne O'Rourke
Executive Head – Governance & Housing
grainne.orourke@nfdc.gov.uk

Background Papers

Audit Committee July 2021 - Delivering Good Governance in Local Government Framework 2016

APPENDIX 1

THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2020/21

1. Scope of Responsibility

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It has a duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a Code of Good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This Statement explains how New Forest District Council has complied with the Code and also meets the requirements of regulation 13 of the Accounts & Audit Regulations 2015 in relation to the publication of a statement of corporate governance.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, as well as the culture and values, by which the authority is directed and controlled and its activities, through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure in delivery of policies, achieving aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

The good governance framework centres on the following 7 core principles:

A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B	Ensuring openness and comprehensive stakeholder engagement.
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.
D	Determining the interventions necessary to optimize the achievement of the intended outcomes.
E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F	Managing risks and performance through robust internal control and strong public financial management.
G	Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Council is concerned to ensure that quality of service delivery is maintained at a time of financial constraint and uses a variety of mechanisms to assess this. This helps inform future service delivery.

The Council continually revises its Medium Term forecast according to latest information received around likely funding levels and expenditure increases. The Council's current strong financial position and on-going efficiencies programme (including the development of new income generation initiatives) will help protect front-line service delivery. The MTFP is underpinned by the healthy Budget Equalisation and General Fund reserves and these enable the Council to respond to changes accordingly.

During 2020, the world-wide Coronavirus COVID-19 pandemic has impacted global economies in ways that haven't been seen for decades. The UK's response has included an unprecedented package of financial measures to try and protect and restimulate the UK economy.

Local Authorities have been significantly impacted with disruption to services, enforced home-working, responding to new legislation and responsibilities and playing a key role in the testing and vaccination programmes.

Within this Council, a number of initiatives were introduced during 2020/21, including the provision of a shopping service to help the most vulnerable within our communities, support to open up the economy whilst not in lockdown, payments of significant levels of mandated and discretionary business support grants and financial support to those who have suffered financial hardship as a result of being required to self-isolate. The Council has also provided staffing and sites for vaccination roll out and COVID-19 testing.

Early in 2020, the Council's Cabinet agreed that the Council would need to re-cast the Medium Term Financial Plan, including the provision of an Emergency Budget for 2020/21 in light of the severity of the impact to the Council's budget. Four Task and Finish Groups were established to assist in the Council's recovery plan and meetings commenced in June 2020. Regular updates and Task and Finish Group recommendations were reported through to the Cabinet during 2020/21.

The Audit Plan for 2020/21 was flexed to take account of the new ways of working, and the new responsibilities placed on the Council (for example, Business Support Grants). The updated plan reflected on services which were under significant pressure, or performing duties outside of their normal service delivery.

Over the years, the Council has developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2020/21 and includes arrangements with Hampshire County Council (in respect of Audit and Treasury functions) and a joint Information Office 'The Ringwood Gateway' between Ringwood Town Council, HCC and the District Council.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other bodies such as the Overview and Scrutiny Panels and Officers in respect of policy and decision-making processes. There is a comprehensive scheme of delegations to officers to ensure timely decision-making. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated where opportunities for improvement are identified.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

In 2016 CIPFA/SOLACE carried out a review of their framework to ensure that it still reflects the environment in which Councils are operating and to also reflect the International framework which had been developed by CIPFA and the International Federation of Accountants (IFAC) in 2014.
As a result of their review in April 2016 CIPFA/SOLACE published a new framework document "Delivering Good Governance in Local Government Framework 2016 Edition" with the key focus of governance processes and structures centring on the attainment of sustainable economic, societal and environmental outcomes. Council approved the revised code in April 2017 which follows the recommended text in the CIPFA/SOLACE framework.

In April 2021, a new Council Leader was appointed. The newly appointed Leader was previously Deputy Leader and has been a member of the Cabinet for several years.

During 2020/21, the chancellor announced that the Solent Freeport bid would move onto the next stage with the Solent LEP taking a lead role on the development of the full business case. A new board has been established with the key stakeholders, with the Council's Leader taking a seat on the board.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior statutory officers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

This Council has always maintained a strong internal control environment and sees risk management as an integral part of everyday management. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

A summary of the review activities undertaken during 2020/21 are included below:

1. A number of Council policies were reviewed or new Plans/Policies implemented including:

    - Shared Ownership Scheme
    - The Local Plan
    - Statement of Community Involvement (how the Council engages the public on planning applications)
    - Private Sector Housing Strategy
    - Local Connection Restriction Policy
    - Affordable Rent Policy
    - Housing Asset Management Strategy
    - Numerous Business Support Grant Policies

2. The Council's Executive Management Team remained unchanged throughout 2020/21. Subsequently, in April 2021, Council agreed to a request made by the deputy Chief Executive for early retirement on the grounds of efficiency. The Chief Executive then carried out a review of executive areas of responsibility and made some changes to ensure every service fit with an executive head. Following these changes, in May, the Chief Executive confirmed he would be retiring in August 2021. The Council's new Chief Executive, Kate Ryan, commenced employment with the Council in December 2021.

3. One of the requirements of the GDPR is to appoint a Data Protection Officer (DPO). The role of the DPO is to oversee the Councils compliance with GDPR and provide advice in relation to the law. The Service Manager for Legal held the DPO position until his departure from the

authority in May 2021. The DPO position is now held by a Solicitor within Legal Services who holds the EU General Data Protection Regulation Practitioner qualification.

4. The Council's arrangements for financial management and reporting are sound and are well documented. Proposals for asset maintenance expenditure are supported by a business case as are new requests for revenue resources. These are scrutinised initially by EMT and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. The financial planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by Council each year.

5. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements are in place with an annual report of work carried out presented to Council.

6. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively and therefore significant emphasis is placed on continuous improvement and development.

7. The responsibility of S151 functions sits with the Chief Finance Officer (from May 2021 title updated to 'Executive Head of Financial (S151) and Corporate Services') who undertakes that statutory role. The Executive Head of Governance and Housing is the Monitoring Officer, which is also a statutory role. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Executive Head of Governance and Housing (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure that decisions are taken lawfully and that risks are properly considered.

8. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review of the Council's Financial Regulations was completed during 2017/18 with the new regulations presented to and endorsed by the Audit Committee. The new regulations went live during April 2018, following approval by full Council. The next review will take place in 2021/22 to ensure they remain fit for purpose.

9. Performance Management ensures strategic monitoring with a focus on organisational and service based indicators, reflecting the aims and objectives of the Corporate Plan. A review of the Council's Performance Management Framework commenced during 2019/20 and was finalised in 2020/21. Portfolio Holder dashboards were presented to Overview and Scrutiny Panels during 2020/21 increasing transparency of performance and risks to service delivery.

10. The Audit Committee meet regularly and training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.

11. The Council reviewed its insurance and risk management arrangements and employed a new officer during 2019/20 with responsibility for these respective areas. The Council's approach to risk management has been long standing, although the annual review originally scheduled for March 2020 was temporarily postponed. The Audit Committee attended a Strategic Risk Management training session in January 2021 delivered by a third party from the Council's insurers. The Council's Strategic Risk Register was fundamentally reviewed during 2020/21 to take account of the worldwide Pandemic. An updated version was reviewed by the Audit Committee in January 2021 and subsequently adopted by the Council during the year. The

document remains under regular review as a result of the constantly changing national and international situation.

12. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities, to maintain proper control over the Council's financial affairs, as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer and the Executive Management Team. The Committee has also received reports and updates from the External Auditor.

13. The Internal Audit function is provided by the Southern Internal Audit Partnership (operated by Hampshire County Council) and accords with the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.

14. The Principal Auditor's annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in his overall opinion that:
    - sufficient assurance work has been carried out to allow a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment
    - New Forest District Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice
    - where weaknesses have been identified through internal audit review, Internal Audit have worked with the Council's management to agree appropriate corrective actions and a timescale for improvement.

15. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.

16. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. The Council is a member of the Cyber security Information Sharing Partnership (CISP) and has signed up the South East Government Warning, Advisory and Reposting Point (providing information, knowledge and alerts on threat and incidents. The Audit Committee received an update during 2019/20 on cyber risks, and as a result of an adopted recommendation from that meeting, has since taken out a cyber insurance policy. ICT also reviewed the ICT Security Policy during 2020/21, to take specific regard of the increased home working experienced from March 2020.

17. Internal Audit has reported a 'Reasonable' opinion on the overall control environment. One limited assurance audit opinion was given and monitoring of progress against the management actions of this audit will continue into 2021/22. The following audit area has previously received high priority recommendations:
    - Payment Card Industry Data Security Standard Accreditation
        - Work has been ongoing during 2020/21 and a single payment process has been identified as a blocker to compliance. Work has commenced on addressing this process.

18. 2020/21 was the first full year of the Council using the new Finance System, as implemented during 2019/20. The new system has had coverage through the internal audit plan and 'Reasonable' assurance has been given.

19. The implementation of the new finance system in 2020/21 saw the introduction of revised workflow (approval) processes for the raising and payment of invoices. These were tested by internal audit during the year and no weaknesses identified.

20. A data breach was reported to the Council in during the period covered by this AGS. The Council's two statutory officers immediately worked closely together on a review of information governance across the Council and the suggested actions were reported to, and endorsed by the Executive Management Team. EMT will monitor the effectiveness of the actions put in place during 2021/22.

21. In February 2021, Council made a decision to award an operating contract to Wealdon Leisure Ltd, trading as Freedom Leisure, to commence on 1st July 2021 for an 11 year period, with the option to extend for a further 4 years. The operating agreement has been agreed by both parties and as included within that agreement, the Council and the operator will both have representation on a new partnership board which will be responsible for ensuring the operator delivers on the Council's service specification and performance indicators.

22. A matter concerning the volume of telephone calls being recorded and securely stored by the Council came to light during 2021, since the initial draft of the Annual Governance Statement. Call recording was stopped immediately, and following approval from the Executive Management Team, all recordings were deleted from secure storage. The Service Manager for ICT working collaboratively with the Information Governance Officer presented options to the Executive Management Team who confirmed that a policy of recording by exception would be implemented. The Information Governance Officer is now working with Service Managers across the organization to assess the legal basis of call recording in the areas where call recording has been identified as necessary.

5. Financial Management Code

In December 2019, CIPFA introduced a Financial Management Code. The driver for this was the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time it sets out the standards of financial management for local authorities.

The underlying principles that inform the Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. Each local authority must demonstrate that the requirements of the Code are being satisfied. This is a collective responsibility of elected Members, the CFO and their professional colleagues in the Leadership Team.

Local authorities should be able to demonstrate they are working towards full implementation for the first full year of compliance in 2021/22.

The Section 151 Officer will produce a report on the Financial Management Code to the Executive Management Team and then to Audit Committee during 2021/22. This report will include an appendix detailing the CFO's assessed level of compliance with the Code.

6. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following significant areas will be included in the action plan:

1. Payment Card Industry Data Security Standard Accreditation
2. Information Governance
3. Financial Management Code
4. Call Recording

7. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2021 and up to the date of approval of the annual report and statement of accounts.

We propose to take steps over the coming year to address those areas identified above to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:	…………………………	*Signed:*	…………………………..
	Leader of the Council		**Chief Executive**
Date:	………………………….	*Date:*	…………………………..

Annual Governance Statement Action Plan for 2021/22

Heading	Update / Action	Responsible	Target
PCI Accreditation	Work is underway on PCI accreditation in light of the recent changes to the Finance System and Telephone Payment System. Action: to finalise the process in relation to seeking PCI accreditation	Chief Finance Officer	March 2022
Information Governance	Following the review conducted by the Council's Monitoring Officer and Section 151 Officer, a new Information Governance support team was established early during 2021/22. Action: EMT to be regularly updated on progress made by the new team in ensuring compliance with Data Protection and GDPR.	Chief Finance Officer / Executive Head Governance and Housing	March 2022
Financial Management Code	Following the introduction of the CIPFA Financial Management Code, the Council's CFO will undertake an assessment of it's compliance with the code. Action: CFO to carry out a review and report to EMT / Audit Committee	Chief Finance Officer	March 2022
Call Recording	A review of departmental call handling, to consider the legal basis for the recording and retaining calls.	Chief Finance Officer / Executive Head Governance and Housing	March 2022

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AUDIT COMMITTEE – 28 JANUARY 2022

FINAL ANNUAL FINANCIAL REPORT 2020/21

1. PURPOSE OF THE REPORT

1.1 On 2 July 2021 the Audit Committee approved the draft set of key Financial Statements, ahead of passing to External Audit for their annual review of the overall Annual Financial Report.

1.2 NFDC Finance officers and the External Auditors have been working together on the review of the NFDC Annual Financial Report for the year ended 31 March 2021, and the audit is now substantially completed. There are however some areas where work is ongoing, and so the set of accounts presented today may still be subject to change.

2. RECOMMENDATION

2.1 That the report at Appendix 1 be supported and that the Chief Financial Officer, in consultation with the Chairman, be delegated to sign off the Annual Financial Report for 2020/21 at the appropriate time, on completion of the outstanding audit work.

Further Information	Background Papers
Alan Bethune	
Executive Head of Financial (s151) & Corporate Services	
Tel: 023 8028 5001	
Email:Alan.Bethune@nfdc.gov.uk	

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APPENDIX 1

Annual

Financial

Report

2020/2021

NEW FOREST DISTRICT COUNCIL

ANNUAL FINANCIAL REPORT - YEAR ENDED 31 MARCH 2021

CHAIRMAN OF THE COUNCIL
Councillor D Tipp

LEADER OF THE COUNCIL
Councillor E Heron

CHIEF EXECUTIVE Mrs K Ryan

CHIEF FINANCE OFFICER (S151) Mr A Bethune

CONTENTS

Notes to the Accounts (index)

STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Responsible Financial (s151) Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- approve the statement of accounts.

I confirm that these accounts were reviewed by Members of the Audit Committee at the meeting held on 28 January 2022 with formal approval by the Chairman on TBC.

Cllr A O'Sullivan
Audit Committee Chairman **Date TBC**

2. The Responsible Financial (s151) Officer's Responsibilities

The Responsible Financial (s151) Officer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this statement of accounts, the Responsible Financial (s151) Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent; and

- complied with the Code of Practice.

The Responsible Financial (s151) Officer has also:

- kept proper accounting records which were up to date; and

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts presents a true and fair view of the financial position of New Forest District Council at 31 March 2021 and the income and expenditure for that year ended.

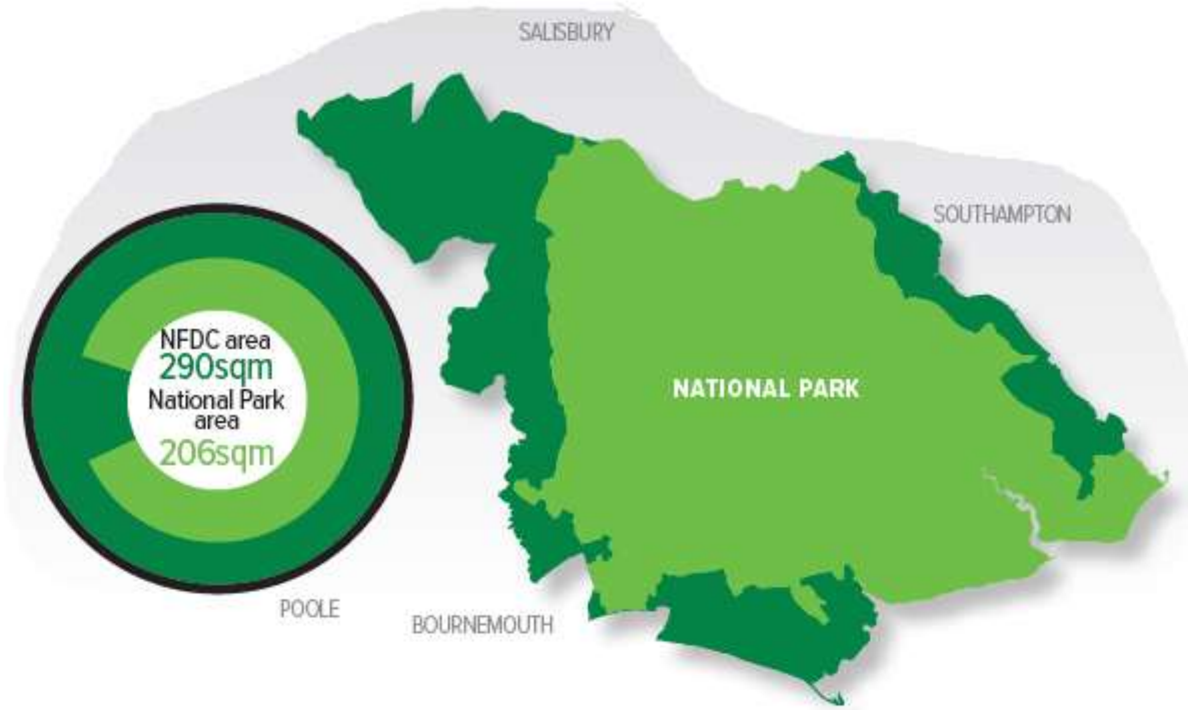
Mr A Bethune FCCA – Chief Finance Officer (s151) **Date TBC**

NARRATIVE STATEMENT

1. Foreword from the Council's Responsible Financial Officer

The New Forest

The local government administrative area of New Forest District Council (290 square miles) includes the New Forest National Park (206 square miles).



Within the district there are 145 square miles of Crown land, managed by the Forestry Commission. The district is one of the most populated in England (circa 180,000) not to be a unitary authority and within its boundaries there are 37 active Town and Parish Councils. Hampshire County Council is responsible for upper tier services.

The New Forest is home to the third largest economy in Hampshire, with a total Gross Value Added of £4.4 billion. The district contains over 8,000 businesses in total, which is more than any other local authority in Hampshire, including the cities of Southampton and Portsmouth. 89% of businesses in the district are micro in size employing fewer than 10 people. Self-employment is relatively high at over 11% and unemployment is consistently lower than in the rest of the country. Leisure, tourism and marine along with their associated supply chains are significant employment and economic sectors within the district.

Average earnings are low, with 60% of the working population earning less than the UK average. This, and the high average house price, results in significant cross commuting between those who work in the forest but cannot afford to live there, and those who can afford to live within the district but work elsewhere. The district council is located between the two major conurbations of Southampton and Bournemouth.

Housing, and particularly affordable housing, for local people is a particular issue in the district. The District Council manages its own housing stock (over 5,000 properties) and the Council's new allocation policy manages the waiting list to ensure those in the greatest need have the best chance of securing a Council owned property.

NARRATIVE STATEMENT

Corporate Plan and Council Priorities

The Council is led by 60 Councillors and elections took place in May 2019. The current Political make-up of the Council is: 45 Conservative, 13 Liberal Democrat and 2 Independent.

Community Matters, the Council's Corporate Plan for 2020-2024, focuses on the challenges faced and the plans to address them. It recognises the ongoing financial constraints, whilst building on the strong financial position created and sets priorities that matter to the people of the District to deliver a prosperous New Forest and put the community first.

The commitments of Community Matters are:

- Delivering a prosperous New Forest and putting our community first
- Encouraging development that meets local needs and enhances the special qualities of the environment
- Creating balanced communities and housing options that are affordable and sustainable
- Keeping our communities safe and listening to their needs
- Enabling service provision and ensuring value for money for the Council Tax payer
- Improving the health and wellbeing of our community
- Working to tackle climate change and enhancing our special environment
- Helping local businesses grow and prosper

Key Achievements realised during 2020/21 against the Portfolios are outlined in the Annual Performance Report, reported to Cabinet in July 2021.

In light of the Covid 19 crisis, many of the key achievements in 2020/21 were the protected delivery of essential frontline services, and the Council playing its vital role in supporting vulnerable residents and businesses. The priorities set within the Corporate Plan will be revisited during 2021/22 to reflect on a new Portfolio Structure (from April 2021) as recovery efforts and new ways of life are established.

Future Financial Outlook

The Council continues to deliver essential front-line services to the circa 180,000 residents of the New Forest, despite significant funding reductions from Central Government since austerity measures were introduced, now over 10 years ago. Significant efficiencies have been realised over the period and income generation has increased. This Council has an excellent track record of delivering the same, or in some instances improved services, at a lower overall cost.

The Council is also working on the delivery of an adopted Housing Strategy, in which the Council has targeted the ownership of 600 additional homes by 2026 and is prepared to spend circa £100 million over this period in delivering this target. The Council has a well-established Housing Revenue Account, which is well placed to support and manage additional stock numbers. As the largest registered provider of social housing in the district, the Council recognises it has an important role to play in the delivery of new affordable homes to those wanting to work and live in the New Forest.

NARRATIVE STATEMENT

The latest Medium Term Financial Plan, that accompanied the setting of the 2021/22 budget, highlighted the likely impact that the Fair Funding Review and the potential that a ‘hard’ Business Rates reset will have on the Council’s finances. Despite this, the plan outlined options to address the funding gap and demonstrate the ability to set a balanced budget through to 2023/24. Options include efficiency savings, the generation of new additional income through the Commercial and Residential Property Strategies and Council Tax increases.

COVID-19

2020/21 has been a year of unprecedented challenge and financial uncertainty as a result of the Covid-19 pandemic. Significant income losses and additional costs within services have been largely offset through welcomed general and specific Government support. In September 2020 the Council approved a revised emergency budget without needing to draw on the General Budget Reserve.

The financial impacts for the year as a result of Covid-19 have been recorded in monthly returns to the Ministry for Housing, Communities and Local Government (MHCLG). The March 2021 return, showed estimated additional costs and income losses of £9.891 million across both the General Fund and Housing Revenue Account. The Council received £3.880 million Covid related funding from the Government and expects £4.263 million for compensation for losses in sales, fees and charges.

In the year, the Council has administered over £67.6 million in emergency grants for businesses, as well as £668,000 council tax hardship funds and provided business support and assisted communities to reopen. This increase in workload has put pressure on capacity to deliver all services during the year and this is reflected in the outturn figures and annual performance report. Revenue expenditure for 2020/21 is summarised in the Comprehensive Income and Expenditure Statement. This shows the costs of all the Council's services and how the net expenditure has been funded.

Group Accounts

The Council has prepared Group Accounts for the first time in 2020/21 reflecting the Wholly Owned Group of ‘Appletree Property’ companies. Appletree Property Lettings Ltd concerns itself with the acquisition and letting of open market properties, and is an activity aligned to the Council’s General Fund as opposed to the Housing Revenue Account. The activity aims to support the private rented sector; and enables the Council to provide rental properties at all tenures, considering affordable and social rents are also offered through the Housing Revenue Account. An annual report is presented to the Council’s Corporate Affairs and Local Economy Overview and Scrutiny Panel on the activity of the Group of Companies.

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2. The Statement of Accounts

The accounts for 2020/21 comprise the following statements:

- **Comprehensive Income and Expenditure Statement**

  This statement shows the accounting cost in the year of providing General Fund and Housing Revenue Account services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and housing rents. The Council raises taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation and rents position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

  Expenditure and Funding Analysis
  (supporting note to the Comprehensive Income and Expenditure Statement)

  The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

- **Movement in Reserves Statement**

  This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and that statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

- **Balance Sheet**

  This statement shows the value, as at the Balance Sheet date, of the Council's recognised assets and liabilities. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category is usable reserves, i.e. those reserves that the Council may use to provide services, subject to any statutory limitations and the need to maintain prudent reserve levels. The second category is reserves that the Council cannot use to provide services. This category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations''.

NARRATIVE STATEMENT

- **Cash Flow Statement**

  The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

- **Housing Revenue Account (HRA) Income and Expenditure Statement**

  This statement shows the economic cost in the year of providing Council Housing services in accordance with generally accepted accounting practices rather than the amount to be funded from rents. The Council charges rents to cover net expenditure incurred in accordance with regulations, which is different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the HRA section of the Movement in Reserves Statement.

- **Collection Fund**

  This is an agent's statement that reflects the statutory obligation of the Council, as a billing Authority, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements are shown for council tax and non-domestic rates, due to the complexity of non-domestic rates transactions under the Retention Scheme that was introduced in 2013/14.

3. Financial Performance during the Year

As at 31 March 2021 the Council had net assets of £267 million.

The majority of this net worth is in the Portfolio of Council Dwellings, valued at £385 million, offset with a debt liability of £127 million. Operational Land and Buildings total £68 million, Investment Properties £12 million, and other long-term assets and investments total £29 million. Cash and short-term investments total £34million. The council has a net pension liability of £117 million. This is explained in more detail in section 4 of this narrative statement.

Usable reserves total £62 million (an increase of £14 million from 2019/20), with £4 million of the total being earmarked to support the visible delivery of the General Fund (£3 million) and Housing Revenue Account (£1 million).

- ### General Fund

This section provides a summary of General Fund performance for the year in a simplified format that is consistent with the Council's published revenue budget and in a format used for operational budget monitoring throughout the year. All actual figures are included within the Comprehensive Income and Expenditure Statement.

The 2020/21 original net budget requirement for the General Fund was £19.194 million, an increase of £1.702 million from 2019/20. The Council's budget anticipated being funded £12.8 million from Council Tax (including a £5 increase) and £7.3 million from retained business rates. In order to support the delivery of a balanced budget over the Medium Term and to flatten out Business Rate Collection Fund adjustments, the budget allowed for £1.062 million to be credited to the Budget Equalisation Reserve.

Net income shortfalls and additional expenditure pressures in services during the year were £4.322 million (£2.771 million in services and direct reserves transfers of £1.551 million). Adjustments were made to capital financing and retained business rates were £849,000 below the original budget. The level of government support received, coupled with the proactive measures taken by the Council in adopting an emergency budget resulted in a transfer to the Capital Programme reserve of £1.899 million for the year.

	Original Budget	**Actual**	**Variation**
	£000	**£000**	**£000**
Net Service Expenditure	17,660	20,431	2,771
Revenue Financing of Capital	1,556	1,094	(461)
Interest Earnings (Net)	(730)	(807)	(77)
Other Unringfenced Government Grants	(286)	(6,816)	(6,530)
Net Budget Requirement	18,200	13,902	(4,298)
Transfer to/(from) Earmarked Revenue Reserves	(256)	1,295	1,551
Transfer to/(from) Capital Programme Reserve	1,250	3,149	1,899
Contributions to/(from) Reserves	994	4,444	3,449
General Fund Budget	**19,194**	**18,346**	**(849)**
Council Taxpayers	(12,751)	(12,751)	0
Collection Fund adjustment from previous years	(218)	(218)	(0)
Non-Domestic Rates Redistribution	(7,287)	(17,796)	(10,509)
Transfer to/(from) Business Rates Equalisation Reserve	0	11,357	11,357
Transfer to/(from) Budget Equalisation Reserve	1,062	1,062	0
(Increase)/Decrease in General Fund Balance	**0**	**(0)**	**(0)**

- **Housing Revenue Account**

The Housing Revenue account deficit for 2020/21 was £137,000 compared with an originally budgeted break-even position. Income was £74,000 lower than originally budgeted and there were increased levels of expenditure on Repairs and Maintenance of £330,000, offset by savings in Supervision and Management costs of £212,000 and £49,000 in capital financing costs in comparison to the original budgets. The balance on the account as at 31 March 2021 was £1 million, after allowing for the transfer of £137,000 from earmarked reserves. The budget for 2021/22 anticipates a break-even position for the year.

	Original Budget	Actual	Variation
	£000	**£000**	**£000**
Income	(28,200)	(28,126)	74
Expenditure:			
Repairs and Maintenance	4,693	5,023	330
Supervision and Management	6,382	6,170	(212)
Capital Financing Costs	8,448	8,399	(49)
Other Expenditure	204	198	(6)
	(8,473)	(8,336)	136
Revenue Financing of Capital	8,473	8,473	0
(Surplus)/Deficit	**0**	**137**	**137**
Transfer to/(from) Earmarked Revenue Reserves	0	(137)	(137)
(Increase)/Decrease in Housing Revenue Account Balance	**0**	**0**	**0**

4. Pension Liability

The Council's Balance Sheet shows a net pension liability of £116.704 million, an increase of £17.234 million from 31 March 2020. Whilst this has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the working lives of employees.

5. Long Term Asset Impairments/Revaluations

In 2020/21 net increases in asset values credited to the Income and Expenditure Statement were £7.959 million, but these were offset by capital expenditure not enhancing value of £15.151 million, to arrive at a net impairment of £7.192 million. This compares with a net impairment debit of £10.710 million in 2019/20. These items are reflected in the Net Cost of Services. In addition, a net £4.863 million was credited to the Revaluation Reserve (£3.576 million in 2019/20)

	2019/20	2020/21
	£000	**£000**
Income and Expenditure Statement /		
Capital Adjustment Account		
Revaluation Increases	(8,518)	(9,609)
Revaluation Decreases	6,376	1,650
Net Revaluation (Increases)/Decreases	(2,142)	(7,959)
Capital Expenditure not enhancing asset value	12,852	15,151
Total Income and Expenditure Statement Impairments	**10,710**	**7,192**
Revaluation Reserve		
Revaluation Increases	(4,136)	(5,688)
Revaluation Decreases	560	825
Total Revaluation Reserve	**(3,576)**	**(4,863)**
Total Impairments/Revaluations	**7,134**	**2,329**

6. Capital Expenditure

The level of approved capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original Capital Programme for 2020/21 (including the gross value of the Coastal Regional Monitoring Programme) was £25.694 million. This was initially supplemented by rephasings of £3.061 million from 2019/20. A review of the programme during the year as reported through Financial Monitoring reduced the approved budget to £27.238 million. Actual expenditure of £25.785 million was £1.493 million less than the last approved budget, predominately in relation to treatment of expenditure on the Residential Property Investment Programme between equity and loan.

	Original Budget	Expenditure	Variance
	£000	**£000**	**£000**
Housing Revenue Account			
Major Repairs	6,000	5,585	(415)
Public Sector Disabled Adaptations	1,000	641	(359)
Acquisition and Development Programme	8,600	10,396	1,796
Environmental Enhancements	200	131	(69)
	15,800	16,753	953
Environment and Regulatory Services			
Coast Protection*	1,945	3,578	1,633
Public Conveniences	375	8	(367)
	2,320	3,586	1,266
Finance, Corporate Services and Improvement			
Depots	3,000	160	(2,840)
Commercial Property Investment	0	3,433	3,433
Residential Property Investment	0	387	387
Smarter Working	500	(5)	(505)
Information Technology	0	268	268
Vehicles, Plant and Equipment	1,682	206	(1,475)
	5,182	4,449	(733)
Housing Services			
Private Sector Disabled Adaptations/Home Repair Loans	1,200	545	(655)
	1,200	545	(655)
Leisure and Wellbeing			
Open Space NFDC	292	173	(119)
	292	173	(119)
Planning and Infrastructure			
Transportation	265	172	(93)
Mitigation Schemes	635	107	(528)
	900	279	(621)
	25,694	**25,785**	**91**
Less:			
Coastal Regional Monitoring Programme*	(1,363)	(1,511)	(148)
	24,331	**24,274**	**(57)**

The actual expenditure of £24.274 million was financed by:

	£000	%
Capital Reserve	2,278	9.39
Loan - General	7,080	29.17
Capital Receipts	2,710	11.16
Grant	3,050	12.56
Developers' Contributions	453	1.86
Other (HRA Repairs and Maintenance)	8,704	35.86
	24,274	**100.00**

7. Funding of Future Capital Expenditure

The level of capital expenditure is reviewed and approved annually through the Capital Strategy, in accordance with the estimated resources available.

As at 31 March 2021 the Council had useable reserves/receipts of £41.387 million for capital expenditure purposes (Earmarked Reserves £13.089 million, Capital Programme Reserves £12.143 million, Developers’ Contributions and Community Infrastructure Levy £11.183 million, Capital Grants Receipts in Advance £1.401 million and Capital Receipts Reserve £3.571 million). These reserves may be supplemented by loans raised under Prudential Borrowing, grants, new capital receipts and contributions from the revenue accounts.

The approved original capital expenditure budget for 2021/22 is £36.197 million, including £20.250 million of schemes to be funded from Housing Revenue Account resources. The estimated total resources for 2021/22 will be sufficient to finance the Council’s planned expenditure.

In February 2017, the Council approved a strategy to invest in commercial property. The strategy set out a £30 million fund and an intention to invest within the District for the purpose of economic redevelopment and regeneration, and income generation. The timing of prospective purchases is not known, and so the original budgets do not currently allow for any of this expenditure. In December 2017, the Council approved a strategy to invest in residential property, giving the Council the opportunity to become a private sector landlord with the benefit of a proven track record in rental property management. The financing of the future capital expenditure in relation to the roll-out of both investment strategies will be an appropriate mix of use of capital reserves, internal and prudential borrowing.

8. Current Economic Climate / Future Service Delivery

The Council's general fund balance reserve as shown within these 2020/21 accounts and as included in the setting of the 2021/22 budget is £3 million and is available to support the budget and delivery of services in any given year. Other General Fund earmarked reserves total £18.246 million. The Housing Acquisitions and Development Reserve is £13.089 million and the Housing Revenue Account balance is £1 million. In addition, the Housing Revenue Account ICT reserve is £351,000 as at 31 March 2021.

The Council's Medium Term Financial Plan as adopted in February 2021 included a forecast on the latest expectations with regards to Retained Business Rate income, pay and price expenditure pressures, and laid out areas of work underway that would make a significant contribution towards achieving a balanced budget over the Medium Term.

In February 2021, the Council made a decision to contract a partner to operate and maintain the District Council's five Leisure Centres to commence on 1 July 2021 for a 11 year period with an option to extend for a further 4 years.

9. National Non Domestic Rates (Business Rates)

During 2020/21 the Government granted business rates relief to retail, hospitality and leisure services and compensated Councils for these reliefs with additional Section 31 grant. The legislation that governs Collection Fund accounting means that these reliefs result in a deficit in the Collection Fund in the year, which will not be charged to the Council's General Fund until 2021/22 but the additional S31 grant is credited to the Council's General Fund in 2020/21, resulting in an inflated year end General Fund position. The reliefs are shown as a deficit within the overall negative Collection Fund Adjustment Account reserve balance of £11.283 million and £11.357 million has been transferred to a new Business Rates Reserve to be drawn down in 2021/22 to offset the charge from the Collection Fund in that year.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2019/20					2020/21		
Gross Expend £000	Gross Income £000	Net Expend £000		Note	Gross Expend £000	Gross Income £000	Net Expend £000
2,566	(562)	2,004	Community Affairs		2,377	(1,045)	1,332
12,996	(3,290)	9,706	Environment and Regulatory Services		15,540	(3,800)	11,740
40,250	(34,327)	5,923	Finance, Investment and Corporate Services		38,930	(34,824)	4,106
6,901	(4,573)	2,328	Housing Services		6,685	(4,651)	2,034
45	0	45	Leader and Corporate Affairs		174	0	174
9,894	(7,253)	2,641	Leisure and Wellbeing		8,552	(2,210)	6,342
837	(614)	223	Economic Development		360	(323)	37
7,489	(5,457)	2,032	Planning and Infrastructure		7,323	(4,693)	2,630
80,978	(56,076)	24,902	General Fund		79,941	(51,546)	28,395
28,492	(28,002)	490	Housing Revenue Account		24,767	(28,097)	(3,330)
109,470	**(84,078)**	**25,392**	**Cost of Services**		**104,708**	**(79,643)**	**25,065**
			Other Operating Expenditure				
6,106			Town and Parish Council Precepts		6,519		
574			Payments to the Government Housing Capital Receipts Pool		662		
	(1,365)		(Gains)/Losses on the disposal of Non-Current Assets			(1,072)	
358	(1,192)		VAT Assessment / (Refund)		0	0	
		4,481	**Total Other Operating Expenditure**				**6,109**
			Financing and Investment Income and Expenditure				
			Interest Payable and Similar Charges:				
26			- General Fund		19		
4,339			- HRA		4,245		
	(1)		Expected Credit (Gain)/Loss on Investments		3		
1,419	(27)		Changes in the fair value of Investments		45	(1,177)	
	(1,339)		Other Investment Income			(843)	
2,164			Net interest on the net defined benefit liability/(asset)	43	2,242		
	(109)		Income, expenditure and changes in the fair value of Investment Properties	12	7		
		6,472	**Total Financing and Investment Income and Expenditure**				**4,541**
			Taxation and Non-Specific Grant Income				
	(18,660)		Council Tax Income (incl. Parish precepts)			(19,339)	
	(5,514)		Non-Domestic Rates Income and Expenditure	45		(5,942)	
	(526)		Unringfenced Government Grants	45		(6,816)	
	(2,407)		Capital Grants and Contributions	45		(3,714)	
		(27,107)	**Total Taxation and Non-Specific Grant Income**				**(35,811)**
124,456	(115,218)	**9,238**	**(Surplus)/Deficit on the Provision of Services**	5	118,450	(118,546)	**(96)**
	(3,577)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			(4,863)	
1,661			Re-measurement of the defined benefit liability/(asset)	43	11,276		
		(1,916)	**Other Comprehensive Income and Expenditure**				**6,413**
		7,322	**Total Comprehensive Income and Expenditure**				**6,317**

Total Comprehensive Income and Expenditure has moved by £1.005 million between 2019/20 and 2020/21. The reasons for this are detailed in Note 6.

Mr A Bethune FCCA – Chief Finance Officer (S151) Date TBC

EXPENDITURE AND FUNDING ANALYSIS
(supporting note to the Comprehensive Income and Expenditure Statement)

	Income and Expenditure chargeable to the General Fund and HRA	Adjustments between the Funding and Accounting Basis	Net Expenditure for the equivalent amounts in the Comprehensive Income and Expenditure State
2020/21:	**£000**	**£000**	**£000**
Community Affairs	1,132	200	1,332
Environment and Regulatory Services	8,944	2,796	11,740
Finance, Investment and Corporate Services	3,249	857	4,106
Housing Services	1,687	347	2,034
Leader and Corporate Affairs	167	7	174
Leisure and Wellbeing	5,406	936	6,342
Economic Development	(21)	58	37
Planning and Infrastructure	1,755	875	2,630
General Fund	22,319	6,076	28,395
Housing Revenue Account	(7,986)	4,656	(3,330)
Cost of Services	**14,333**	**10,732**	**25,065**
Total Other Operating Expenditure	6,519	(410)	6,109
Total Financing and Investment Income and Expenditure	2,924	1,617	4,541
Total Taxation and Non-Specific Grant Income	(32,096)	(3,715)	(35,811)
(Surplus)/Deficit on the Provision of Services	**(8,320)**	**8,224**	**(96)**
Other Comprehensive Income and Expenditure	(5,898)	12,311	6,413
Total Comprehensive Income and Expenditure	**(14,218)**	**20,535**	**6,317**
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	(14,218)		
Transfer to/ (from) Earmarked Reserves	14,218		
Closing General Fund and HRA Balances	**(4,000)**		
2019/20:			
Community Affairs	1,857	147	2,004
Environment and Regulatory Services	8,765	941	9,706
Finance, Investment and Corporate Services	5,234	689	5,923
Housing Services	2,125	203	2,328
Leader and Corporate Affairs	43	2	45
Leisure and Wellbeing	1,144	1,497	2,641
Economic Development	(88)	311	223
Planning and Infrastructure	1,473	559	2,032
General Fund	20,553	4,349	24,902
Housing Revenue Account	(8,436)	8,926	490
Cost of Services	**12,117**	**13,275**	**25,392**
Total Other Operating Expenditure	5,272	(791)	4,481
Total Financing and Investment Income and Expenditure	2,938	3,534	6,472
Total Taxation and Non-Specific Grant Income	(24,701)	(2,407)	(27,108)
(Surplus)/Deficit on the Provision of Services	**(4,374)**	**13,611**	**9,237**
Other Comprehensive Income and Expenditure	12,336	(14,251)	(1,915)
Total Comprehensive Income and Expenditure	**7,962**	**(640)**	**7,322**
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	7,962		
Transfer to/ (from) Earmarked Reserves	(7,962)		
Closing General Fund and HRA Balances	**(4,000)**		

See Note 5 for further analysis

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Programme Reserve	Capital Receipts Reserve	Community Infrastructure Levy Unapplied	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000		£000	£000	£000	£000
Balance at 31 March 2019	**(3,000)**	**(25,158)**	**(1,000)**	**(12,415)**	**(5,801)**	**(4,094)**	**(3,526)**	**(54,994)**	**(225,504)**	**(280,498)**
Movement in reserves during 2019/20										
(Surplus)/deficit on the provision of services	5,772	0	3,466	0	0	0	0	**9,238**	**0**	**9,238**
Other comprehensive income and expenditure	0	0	0	0	0	0	0	**0**	**(1,916)**	**(1,916)**
Total Comprehensive Income and Expenditure	**5,772**	**0**	**3,466**	**0**	**0**	**0**	**0**	**9,238**	**(1,916)**	**7,322**
Adjustments between accounting basis and funding basis under regulations (note 8)	(3,747)	0	2,471	0	1,183	(1,118)	(721)	**(1,932)**	1,932	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**2,025**	**0**	**5,937**	**0**	**1,183**	**(1,118)**	**(721)**	**7,306**	**16**	**7,322**
Transfers to/(from) earmarked reserves (notes 9/10)	(2,025)	5,844	(5,937)	2,118	0	0	0	**0**	**0**	**0**
(Increase) / Decrease in Year	**0**	**5,844**	**0**	**2,118**	**1,183**	**(1,118)**	**(721)**	**7,306**	**16**	**7,322**
Balance at 31 March 2020	**(3,000)**	**(19,314)**	**(1,000)**	**(10,297)**	**(4,618)**	**(5,212)**	**(4,247)**	**(47,688)**	**(225,488)**	**(273,176)**
Movement in reserves during 2020/21										
(Surplus)/deficit on the provision of services	586	0	(682)	0	0	0	0	**(96)**	**0**	**(96)**
Other comprehensive income and expenditure	0	0	0	0	0	0	0	**0**	**6,413**	**6,413**
Total Comprehensive Income and Expenditure	**586**	**0**	**(682)**	**0**	**0**	**0**	**0**	**(96)**	**6,413**	**6,317**
Adjustments between accounting basis and funding basis under regulations (note 8)	(16,147)	0	2,025	0	1,047	(786)	(361)	**(14,222)**	14,222	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**(15,561)**	**0**	**1,343**	**0**	**1,047**	**(786)**	**(361)**	**(14,318)**	**20,635**	**6,317**
Transfers to/(from) earmarked reserves (notes 9/10)	15,561	(12,372)	(1,343)	(1,846)	0	0	0	**0**	**0**	**0**
(Increase) / Decrease in Year	**0**	**(12,372)**	**0**	**(1,846)**	**1,047**	**(786)**	**(361)**	**(14,318)**	**20,635**	**6,317**
Balance at 31 March 2021	**(3,000)**	**(31,686)**	**(1,000)**	**(12,143)**	**(3,571)**	**(5,998)**	**(4,608)**	**(62,006)**	**(204,853)**	**(266,859)**

BALANCE SHEET AS AT 31 MARCH

2019/20				2020/21	
£000	£000		Notes	£000	£000
		Long-Term Assets			
		Property, Plant and Equipment:			
375,573		Council Dwellings	11	384,811	
68,506		Other Land and Buildings	11	67,842	
3,236		Vehicles, Plant and Equipment	11	2,437	
3,386		Infrastructure	11	3,064	
537		Community Assets	11	537	
4,312	455,550	Assets Under Construction	11	3,286	461,977
	9,454	Investment Property	12		12,384
	18,636	Long-Term Investments	14		17,120
	1,467	Long-Term Debtors	15		2,712
	485,107	**Total Long-Term Assets**			494,193
		Current Assets			
20,062		Short-Term Investments	16	25,053	
285		Inventories	17	267	
11,662		Short-Term Debtors	18	17,491	
(2,667)		Bad Debt Provision	18	(2,987)	
18,553		Cash and Cash Equivalents	19	8,878	
	47,895	**Total Current Assets**			48,702
	533,002	**Total Assets**			**542,895**
		Current Liabilities			
(4,348)		Short-Term Borrowing	20	(4,346)	
(24,055)		Short-Term Creditors	21	(27,435)	
	(28,403)	**Total Current Liabilities**			(31,781)
		Long-Term Liabilities			
(126,906)		Long-Term Borrowing	23	(122,605)	
(3,878)		Provisions	24	(2,968)	
(544)		Capital Grants - Receipts in Advance	25	(1,401)	
(625)		Developers' Contributions - Receipts in Advance	26	(577)	
(99,470)		Net Pensions Liability	43	(116,704)	
	(231,423)	**Total Long-Term Liabilities**			(244,255)
	273,176	**Net Assets**			**266,859**
		Usable Reserves			
3,000		General Fund Balance		3,000	
19,314		Earmarked Reserves	9	31,686	
1,000		Housing Revenue Account Balance		1,000	
10,297		Capital Programme Reserve	10	12,143	
4,618		Capital Receipts Reserve	27	3,571	
5,212		Community Infrastructure Levy Unapplied	28	5,998	
4,247	47,688	Developers' Contributions Unapplied	28	4,608	62,006
		Unusable Reserves			
41,864		Revaluation Reserve	29	46,595	
283,315		Capital Adjustment Account	30	286,484	
(1,219)		Financial Instruments Revaluation Reserve	31	(90)	
558		Deferred Capital Receipts Reserve	32	444	
(99,470)		Pensions Reserve	33	(116,704)	
722		Collection Fund Adjustment Account	34	(11,283)	
(282)	225,488	Accumulating Absences Adjustment Account	38	(593)	204,853
	273,176	**Total Reserves**			**266,859**

Mr A Bethune FCCA – Chief Finance Officer (S151)   Date TBC

CASH FLOW STATEMENT

2019/20 £000		Notes	2020/21 £000
9,238	Net (surplus) or deficit on the provision of services		(96)
(28,858)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(22,408)
3,169	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	2,165
(16,451)	Net cash flows from Operating Activities		(20,339)
1,735	Investing Activities	36	20,685
2,037	Financing Activities	37	9,329
(12,679)	Net (increase) or decrease in cash and cash equivalents		9,675
(5,874)	Cash and cash equivalents at the beginning of the reporting period		(18,553)
(18,553)	**Cash and cash equivalents at the end of the reporting period**	19	(8,878)

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and the Service Reporting Code of Practice 2020/21 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii) Accruals of Income and Expenditure (Debtors and Creditors)

The accounts of the Council are prepared on an accruals basis. This means that the sums due to or from the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year in question. In particular:

- Income from fees, charges and rents is recognised when the Council provides the relevant goods or services.
- Supplies and services expenditure is recorded as expenditure when the supplies or services are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Accruals have been made for all known material revenue and capital debtors and creditors for goods and services supplied by and to the Council during the year.

Exceptions to this policy are housing benefit payments, housing rents, utility costs and similar quarterly payments that are not apportioned when the period of charge does not coincide exactly with the end of the financial year. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

NOTES TO THE ACCOUNTS

iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or can be called within 24 hours and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council will treat the following as cash and cash equivalents:

- Instant Access Call Accounts
- Instant Access Money Market Funds
- Deposits with one day to maturity

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv) Changes in Accounting Policies, Material Errors and Changes in Accounting Estimates

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or where the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are also corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

v) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Charges are therefore mitigated by way of an adjusting transaction with the Capital Adjustment Account via the Movement in Reserves Statement. The Council is however required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is calculated on a prudent basis determined by the Council in accordance with statutory guidance.

vi) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

vii) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

viii) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. flexi time) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged to services on an accruals basis in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid or payable to the pension fund and pensioners.

Post Employment Benefits

Most employees of the Council are members of the Local Government Pensions Scheme, administered by Hampshire County Council.

Detailed regulations govern rates of contribution and scales of benefits, the latter normally being in the form of a lump sum and annual pension.

The Local Government Scheme is accounted for as a defined benefits scheme:

* The liabilities of the Hampshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

* Liabilities are discounted to their value at current prices, using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.

* The assets of Hampshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

* The change in the net pensions liability is analysed into the following components:

* **Service cost comprising**
    - **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - **Net interest on the net defined benefit liability (asset)** – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. It is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising

- **Return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset), charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial Gains and Losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Contributions paid to the Hampshire pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities - not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid or payable to the pension fund and pensioners. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits – The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix) Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

xi) Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial liabilities are obligations to transfer economic benefits controlled by the Council and can be represented by contractual obligations to deliver cash or financial assets or obligations to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost.

Financial Assets are rights to future economic benefits controlled by the Council that are represented by cash, equity instruments or contractual rights to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council The financial assets held by the Council are accounted for under the following classifications:

Amortised Cost – where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows

Fair value through other comprehensive income – where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument and equity investments that the Council has elected into this category

Fair value through profit and loss – all other financial assets

xii) Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end they are reconverted at the exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xiii) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xiv) Heritage Assets

The Council has concluded that obtaining valuations for currently held Heritage Assets would involve a disproportionate cost in comparison to the benefits to the users of Council's financial statements and therefore has not recognised the assets on the Balance Sheet. Should the Council obtain any additional Heritage Assets in the future each asset would be considered for inclusion at the time.

xv) Intangible Assets

The Council accounts for expenditure on Intangible Assets, such as software licences and website development, as revenue expenditure and therefore there is no asset recognition on the Balance Sheet.

xvi) Inventories

Stocks are recorded in the Balance Sheet and charged to services at actual cost and stores items at average cost. This is not materially different from the recommended practice of carrying them at the lower of cost or net realisable value. Care is taken to write out any obsolescent stocks.

xvii) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Investment properties under construction are measured at fair value once it is possible to measure reliably the fair value of the investment property and at cost before that date.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

xviii) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Where the Council leases a material asset under a finance lease it would be recognised in the accounts as if it were the Council's asset and then treated in the same way as any other Property, Plant and Equipment asset, other than depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period). The Council currently has no such Finance Leases.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. The rentals receivable are treated partly as capital receipts (for the principal element) and partly as revenue interest income. If not paid in full the balance due is held as a Long-Term Debtor in the Balance Sheet and is written down when payments are received.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service area in the Comprehensive Income and Expenditure Statement.

xix) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2020/21 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

xx) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council over a number of years and the cost of the item can be measured reliably. This determination will be made by the Responsible Financial Officer based upon a reasonable and prudent judgement. Leisure and ICT equipment will generally not be capitalised. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level is set for operational assets below which expenditure is not capitalised.

Category of Property, Plant and Equipment Assets	De minimis level
Council dwellings	£25,000
Other land and buildings	£10,000
Vehicles, plant and equipment	£10,000
Infrastructure assets	£10,000

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, Vehicles, Plant and Equipment, Community Assets and Assets Under Construction – depreciated historical cost.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains or exceptionally to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets where the useful life is in excess of 50 years or where assets are without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

* Non-HRA dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
* HRA Dwellings – componentisation applied and depreciated according to the average remaining useful life expectancies.
* vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
* infrastructure – coast protection - straight-line allocation over 20 years.
  land drainage and public lighting - straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is applied in the year in which the asset is acquired and is charged using the straight-line method.

The Remaining Useful Life of the Council's Non-Current Assets

The Council's Property, Plant and Equipment are depreciated over the remaining useful life of the asset as determined by the Council's valuers. Any land owned by the Council is not deemed to have a finite life and is not depreciated.

Investment assets are not depreciated and have a remaining life of 50 years or more.

The following table indicates the estimated remaining useful life of each type of non-current asset owned by the Council. Each category of asset consists of different assets with varying remaining lives, therefore the table shows the range of asset lives within each category.

Type of Asset	Remaining Useful Asset Life at 31 March 2021
Council Dwellings	Up to 60 years
Council Garages	60 years
Depots	60 years
Public Conveniences	Between 1 and 60 years
Offices	Between 50 and 60 years
Cemeteries	Indefinite
Health and Leisure Centres	60 years
Equipment	Between 0 and 29 years
Coastal Protection Works	Up to 8 years
Land Drainage Works	Up to 24 years
Public Lighting Works	Up to 23 years
Residential Dwellings	An average of 46 years
Investment Properties	50+ years

xxi) Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. For Council Dwellings sold under the Right to Buy Scheme a proportion of the receipts, net of statutory deductions and allowances) are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xxii) Private Finance Initiative (PFI) and Similar Contracts

The Council has not entered into any PFI schemes or similar contracts.

xxiii) Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

xxiv) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to show against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept in order to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant notes.

xxv) Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxvi) Value Added Tax (VAT)

Income and expenditure in the Statement of Accounts excludes any amounts related to VAT other than any irrecoverable VAT which is charged to the service to which the supply related.

xxvii) Fair Value Measurements

The council measures some of its non-financial assets, such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability, assuming those market participants were acting in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code of Practice of Local Authority Accounting in the United Kingdom requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified. In addition, disclosure is required for the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code.

The standards that may be relevant for additional disclosures that will be required in future financial statements in respect of accounting changes that are introduced in the 2021/22 Code are:

Definition of a Business: Amendments to IFRS 3 Business Combinations

Interest Rate Benchmark Reform: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Lease

The impact of these accounting standards has not yet been assessed, however is not likely to be material.

3. JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in this document the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements that have the most significant effect on the amounts in the financial statements are:

Asset reclassifications – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset is being held solely for capital appreciation or rental income, there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

Lease classifications – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken “in the round” and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on Leases) and could have a significant effect on the accounts.

Contractual arrangements – the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.

Doubtful debts allowances – the Council has made judgements about the level of doubtful debts allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.

4. UNCERTAINTIES RELATING TO ASSUMPTIONS AND ESTIMATES USED

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Doubtful Debt Allowances	The Council has made allowances for doubtful debts of £2.987 million in 2020/21 (£2.667 million in 2019/20) based on what it believes to be a prudent but realistic level. The allowances are based on: Council Tax and Non-domestic rate payers – ranges from 5% of debts at bill stage to 50% of debts at Liability Order stage. Sundry Debtors including Overpaid Housing Benefits -100% of debts over 1 year. Housing Rents - Former tenants 95%, current tenants various percentages ranging from 0% on debts up to £100 and 95% on debts over £1,000.	If debt collection rates were to deteriorate or improve, a 5% change in the allowances would require an adjustment of £149,000 (£133,000 in 2019/20).

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions' liability of changes in individual assumptions are detailed in Note 43. During 2020/21, the Council's actuaries advised that the net pension liability had reduced by £3.328 million due to estimates being corrected, as a result of experience and increased by £54.743 million due to updating of the assumptions used in the calculations.
Accumulating Absences	The calculated figure is comprised of annual leave entitlement and flexi/lieu time. The carried forward leave on the system has been used to calculate the accrual for annual leave. The number of days taken in flexi leave/lieu time has been used as the base for calculating the accrual at the end of the relevant year.	The accumulated absences amount recorded for 2020/21 is £594,000. A 5% increase in the accrual would amount to £29,700. This would not impact on the usable reserves of the Council.
Business Rates Appeals Provision	The provision of £2.896 million made by the Council is its 40% share of an overall provision of £7.240 million provision made in the Collection Fund. The overall figure is based on a national estimate of 3.6% successful appeals on the gross rateable value, less appeals already settled and adjusted for major appeals that have been notified by the Valuation Office as being in hand and likely to be successful, but not yet settled.	The Council would be impacted by circa 20% of any under or over provision, but any loss would be restricted to a reduction in resources of £2.928 million before Safety Net Grant arrangements apply.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Housing Stock Valuation	The Council adopts the Beacon methodology to annually revalue the Housing stock owned by the Council. The method adopted divides Towns and Parishes across the District into 5 pools, with a single pool being used to inform the Beacon indices each year on a cyclical basis. The pools were revised during 2017/18 to include Towns and Parishes across the District, rather than being too heavily weighted to a specific geographical area. Each year, it is recognised that the Beacon indices may well result in differing valuations when making a comparison against the national house price benchmark.	Over the 5 year period of valuation, the methodology does result in a fair market average valuation being carried in the Council's balance sheet. In any one year however, depending on the pool used to inform the Beacon indices, a variation can occur against the Land Registry house price benchmark. In 2020/21, the NFDC Beacon indices totaled 1.30%, whereas the South East benchmark totaled 0.90%. The resultant difference in these figures equates to circa £1.5 million.
Property, Plant and Equipment	The Council carries out a rolling programme of valuations for PPE and £417 million of assets were valued in 2020/21 Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £4.2 million. If the useful life of assets is reduced, depreciation increases and the carrying value of the asset falls. It is estimated that the annual depreciation charge for PPE would increase by £187,000 if the useful lives were reduced by one year.
Investment Properties	The Council values its investment properties annually and the fair value at 31 March 2021 was £12.4 million.	A 1% change in the valuation of investment properties would change the reported value by £124,000.
Britain leaving the European Union: asset values and pension liability	There is a high level of uncertainty about the implications of Britain leaving the European Union. It is not possible to predict with any level of certainty how on-going negotiations with the EU will then impact on the UK economy, including asset valuations and discount rates. The assumption has been made that any outcome will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly.	Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

5. NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and Housing Revenue Account balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments for Capital Purposes

- Depreciation, impairment and revaluation gains/losses on Property, Plant and Equipment and Investment Properties.
- Gains/losses on the Disposal of Non-Current Assets.
- Payments to the Government Housing Capital Receipts Pool.
- Capital grants, income and contributions.
- Provision for the financing of Capital Investment.
- Capital expenditure charged against the General Fund and Housing Revenue Account balances.

Net Change for Pensions Adjustments

- Replacement of employer pension contributions allowed by statute with current and past service costs.
- Net interest on the net defined benefit liability/(asset).
- Re-measurement of the defined benefit liability/(asset).

Other Differences

- Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements.
- Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the amount chargeable in the year in accordance with statutory requirements.

NOTES TO THE ACCOUNTS

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Amounts:

Adjustment between Funding and Accounting Basis	Adjustment for Capital Purposes	Net Change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
2020/21:				
Community Affairs	0	186	14	**200**
Environment and Regulatory Services	2,008	726	62	**2,796**
Finance, Investment and Corporate Services	422	402	33	**857**
Housing Services	17	303	27	**347**
Leader and Corporate Affairs	0	6	1	**7**
Leisure and Wellbeing	400	502	34	**936**
Economic Development	0	53	5	**58**
Planning and Infrastructure	0	805	70	**875**
General Fund	2,847	2,983	246	**6,076**
Housing Revenue Account	3,858	731	67	**4,656**
Net Cost of Services	**6,705**	**3,714**	**313**	**10,732**
Other Income and Expenditure from the Expenditure and Funding Analysis	(14,591)	13,518	10,875	9,802
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(7,886)**	**17,232**	**11,188**	**20,534**
2019/20:				
Community Affairs	0	148	(1)	**147**
Environment and Regulatory Services	454	490	(3)	**941**
Finance, Investment and Corporate Services	432	260	(3)	**689**
Housing Services	3	200	0	**203**
Leader and Corporate Affairs	0	2	0	**2**
Leisure and Wellbeing	1,178	327	(8)	**1,497**
Economic Development	246	64	1	**311**
Planning and Infrastructure	0	558	1	**559**
General Fund	2,313	2,049	(13)	**4,349**
Housing Revenue Account	8,408	504	14	**8,926**
Net Cost of Services	**10,721**	**2,553**	**1**	**13,275**
Other Income and Expenditure from the Expenditure and Funding Analysis	(18,765)	3,825	1,025	(13,915)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(8,044)**	**6,378**	**1,026**	**(640)**

NOTES TO THE ACCOUNTS

Expenditure and Income Analysed by Nature:

2019/20		2020/21
£000	**Expenditure**	**£000**
31,117	Employee benefits expenses	31,644
56,338	Other services expenses	53,584
3,359	Support Service recharges	2,727
20,433	Depreciation, amortisation and impairment	16,798
6,529	Interest Payments	6,516
6,106	Precepts and Levies	6,519
574	Payments to Housing Capital Receipts Pool	662
124,456	**Total Expenditure**	**118,450**
	Income	
(49,851)	Fees, charges and other service income	(43,126)
(1,365)	Gain on the disposal of assets	(1,072)
(1,476)	Interest and investment income	(2,020)
(18,660)	Income from council tax	(19,339)
(43,866)	Government grants and contributions	(52,989)
(115,218)	**Total Income**	**(118,546)**
9,238	**(Surplus) or Deficit on the Provision of Services**	**(96)**

Segmental Income:

	Government Grant and Other Income	Fees, Charges and Other Service Income	Total
2020/21:	**£000**	**£000**	**£000**
Community Affairs	(82)	(963)	**(1,045)**
Environment and Regulatory Services	(858)	(2,942)	**(3,800)**
Finance, Investment and Corporate Services	(33,451)	(1,373)	**(34,824)**
Housing Services	(1,604)	(3,047)	**(4,651)**
Leisure and Wellbeing	(173)	(2,037)	**(2,210)**
Economic Development	0	(323)	**(323)**
Planning and Infrastructure	(347)	(4,346)	**(4,693)**
General Fund	(36,515)	(15,031)	**(51,546)**
Housing Revenue Account	0	(28,097)	**(28,097)**
	(36,515)	**(43,128)**	**(79,643)**
2019/20:			
Community Affairs	(39)	(523)	**(562)**
Environment and Regulatory Services	(263)	(3,027)	**(3,290)**
Finance, Corporate Services and Improvement	(32,965)	(1,362)	**(34,327)**
Housing Services	(1,723)	(2,850)	**(4,573)**
Leisure and Wellbeing	(149)	(7,104)	**(7,253)**
Local Economic Development, Property and Innovation	0	(614)	**(614)**
Planning and Infrastructure	(249)	(5,208)	**(5,457)**
General Fund	(35,388)	(20,688)	**(56,076)**
Housing Revenue Account	(32)	(27,970)	**(28,002)**
	(35,420)	**(48,658)**	**(84,078)**

6. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Total Comprehensive Income and Expenditure Statement has a net expenditure position of £6.317 million in 2020/21, a movement of £1.005 million from the £7.322 million net expenditure position in 2019/20. The main reasons for the variation, most of which do not impact on usable resources, are as follows:

	2019/20	2020/21	Variation
	£000	£000	£000
Depreciation and Revaluation/Impairment of Non Current Assets	12,141	8,448	(3,693)
Capital Grants and Contributions	(3,695)	(4,696)	(1,001)
Revenue Expenditure Funded from Capital	1,290	998	(292)
Payments to the Housing Pooled Capital Receipts	574	662	88
(Gains)/Losses on Non Current Asset Disposals	(1,365)	(1,072)	293
Movements in value of Investment Properties	232	150	(82)
Changes in Fair Value of Investments	1,392	(1,132)	(2,524)
Pension Fund Actuarial (Gains)/Losses	1,661	11,276	9,615
Other IAS19 Pension Adjustments	4,717	5,958	1,241
(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment (Revaluation	(3,577)	(4,863)	(1,286)
Other Items	(12)	314	326
Items Not Affecting Council Tax / Housing Rents	**13,358**	**16,043**	**2,685**
Equipment Purchases	832	249	(583)
Dwellings Depreciation	8,321	8,703	382
Non-Ringfenced Government Grants	(6,040)	(12,758)	(6,718)
Interest Payable and Similar Charges	4,365	4,264	(101)
Investment Income	(1,339)	(843)	496
Other Items	(12,175)	(9,341)	2,834
Items Affecting Council Tax / Housing Rents	**(6,036)**	**(9,726)**	**(3,690)**
Total Comprehensive Income and Expenditure	**7,322**	**6,317**	**(1,005)**

7. EVENTS AFTER THE REPORTING PERIOD

The draft key Accounting Statements were presented to the Audit Committee on 2 July 2021, and subsequently authorised for publication by the Chief Finance Officer s151 on 30 July 2021.

Events taking place after the date the statements were presented to the Audit Committee are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for any events which took place after 31 March 2021.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2020/21	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	Usable Reserves						
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(1,404)	(2)	0	(8,704)	0	0	10,110
Revaluation Gains / (Losses) on Property, Plant and Equipment	(333)	8,442	0	0	0	0	(8,109)
Capital Expenditure not enhancing value	(2,850)	(12,301)	0	0	0	0	15,151
Movements in the market value of Investment Properties	(150)	0	0	0	0	0	150
Expected Credit Loss on Investments	(3)	0	0	0	0	0	3
Movement in the Fair Value of Investments	1,132	0	0	0	0	0	(1,132)
Capital grants and contributions applied	2,124	974	0	0	0	0	(3,098)
Revenue expenditure funded from capital under statute	(998)	0	0	0	0	0	998
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(8)	(1,085)	0	0	0	0	1,093
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Provision for the financing of capital investment	1,094	4,141	0	0	0	0	(5,235)
Capital expenditure charged against the General Fund and HRA balances	1,303	975	0	0	0	0	(2,278)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,552	0	0	0	(786)	(766)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	405	(405)

NOTES TO THE ACCOUNTS

2020/21	Usable Reserves						
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	71	2,094	(2,165)	0	0	0	0
Transfer of cash proceeds from non PPE assets	20	23	(43)	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,710	0	0	0	(2,710)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(662)	0	662	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	3	(117)	0	0	0	114
Adjustments primarily involving the Major Repairs Reserve:							
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	8,704	0	0	(8,704)
Adjustments primarily involving the Pension Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(8,405)	(2,029)	0	0	0	0	10,434
Employer's pensions contributions and direct payments to pensioners payable in the year	3,619	857	0	0	0	0	(4,476)

2020/21	Usable Reserves						
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(12,004)	0	0	0	0	0	12,004
Adjustments primarily involving the Accumulating Absences Adjustment Account:							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(245)	(67)	0	0	0	0	312
Total Adjustments	**(16,147)**	**2,025**	**1,047**	**0**	**(786)**	**(361)**	**14,222**

2019/20 Comparative Figures	Usable Reserves						
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(1,659)	(3)	0	(8,321)	0	0	9,983
Revaluation Gains / (Losses) on Property, Plant and Equipment	(1,125)	3,498	0	0	0	0	(2,373)
Capital Expenditure not enhancing value	(946)	(11,906)	0	0	0	0	12,852
Movements in the market value of Investment Properties	(232)	0	0	0	0	0	232
Expected Credit Loss on Investments	1	0	0	0	0	0	(1)
Movement in the Fair Value of Investments	(1,392)	0	0	0	0	0	1,392
Capital grants and contributions applied	1,393	248	0	0	0	0	(1,641)
Revenue expenditure funded from capital under statute	(1,290)	0	0	0	0	0	1,290
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1)	(1,803)	0	0	0	0	1,804
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Provision for the financing of capital investment	1,222	4,100	0	0	0	0	(5,322)
Capital expenditure charged against the General Fund and HRA balances	2,239	6,085	0	0	0	0	(8,324)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,919	0	0	0	(1,118)	(801)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	80	(80)

2019/20 Comparative Figures	Usable Reserves						
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	46	3,123	(3,169)	0	0	0	0
Transfer of cash proceeds from non PPE assets	94	38	(132)	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	3,910	0	0	0	(3,910)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(574)	0	574	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	2	0	0	0	0	(2)
Adjustments primarily involving the Major Repairs Reserve:							
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	8,321	0	0	(8,321)
Adjustments primarily involving the Pension Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(8,731)	(1,881)	0	0	0	0	10,612
Employer's pensions contributions and direct payments to pensioners payable in the year	4,923	972	0	0	0	0	(5,895)

2019/20 Comparative Figures	Usable Reserves						
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	353	0	0	0	0	0	(353)
Adjustments primarily involving the Accumulating Absences Adjustment Account:							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	13	(2)	0	0	0	0	(11)
Total Adjustments	**(3,747)**	**2,471**	**1,183**	**0**	**(1,118)**	**(721)**	**1,932**

9. EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure.

	Balance 1 April 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance 31 March 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Building Control Surplus	(3)	0	(41)	**(44)**	0	(127)	**(171)**
Business Rates Equalisation	(1,554)	0	(221)	**(1,775)**	0	(1,062)	**(2,837)**
Business Rates Reserve	0	0	0		0	(11,357)	**(11,357)**
Committed Schemes	(1,045)	1,045	(469)	**(469)**	469	(593)	**(593)**
Community Housing Fund	(936)	16	0	**(920)**	38	0	**(882)**
Contain Outbreak Managemer	0	0	0	**0**	0	(103)	**(103)**
Council Tax Hardship Reserve	0	0	0	**0**	0	(162)	**(162)**
Historic Buildings	(7)	0	0	**(7)**	0	0	**(7)**
Housing Needs Survey	(108)	0	0	**(108)**	0	0	**(108)**
Leisure Development	0	0	(834)	**(834)**	0	0	**(834)**
Local Development Framework	(207)	178	0	**(29)**	9	(350)	**(370)**
Lymington Synthetic Turf Pitch	(168)	0	(19)	**(187)**	0	(20)	**(207)**
Open Space Maintenance	(120)	56	(19)	**(83)**	56	(447)	**(474)**
Private Housing Stock Condition Survey	(117)	29	0	**(88)**	29	0	**(59)**
Quadrennial Election	(174)	174	0	**0**	0	(44)	**(44)**
Treasury Management	0	0	0	**0**	0	(38)	**(38)**
General Fund	**(4,439)**	**1,498**	**(1,603)**	**(4,544)**	**601**	**(14,303)**	**(18,246)**
HRA ICT	(366)	0	(44)	**(410)**	59	0	**(351)**
Housing Acquisitions and Development	(20,353)	5,993	0	**(14,360)**	1,271	0	**(13,089)**
Total Reserves	**(25,158)**	**7,491**	**(1,647)**	**(19,314)**	**1,931**	**(14,303)**	**(31,686)**

10. CAPITAL PROGRAMME RESERVE

This note sets out the amounts set aside from the General Fund to provide for financing of future years' capital expenditure.

	Balance 1 April 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance 31 March 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	(12,415)	2,506	(388)	**(10,297)**	1,303	(3,149)	**(12,143)**
	(12,415)	**2,506**	**(388)**	**(10,297)**	**1,303**	**(3,149)**	**(12,143)**

11. PROPERTY, PLANT AND EQUIPMENT ASSETS AND IMPAIRMENTS

Valuation of Property, Plant and Equipment

The Council operates a rolling programme of property revaluations, which are carried out over a 5-year period. In 2020/21 this work was carried out by the Council's valuer P. Marston, MRICS, Registered Valuer. The revaluation programme for 2020/21 principally comprised the majority of the Council's non-operational land and buildings, as well as 20% of dwellings using the Beacon method of valuation. The remainder of dwellings' values were uplifted in line with the resultant Beacon indices.

a) Analysis of Assets

The following list gives an indication of the range and number of assets owned/leased by the Council.

2019/20		2020/21
5,120	Council Dwellings	5,168
2	Main Office Blocks	2
2	Other Offices	2
5	Depots and Administrative Buildings	5
5	Health and Leisure Centres	5
50	Car Parks	51
9	Cemeteries	9
24	Public Conveniences	23
201	Vehicles	234
1,788	Garages	1,788

b) Valuation of Property, Plant and Equipment Assets carried at current value

The following statement shows the progress of the Council's rolling programme for the revaluation of non-current assets. The basis for valuation is set out in the Statement of Accounting Policies.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost (Net of Depreciation)			2,437	3,064		3,286	**8,787**
Valued at Fair Value as at:							
2020/21	384,491	41,252					**425,743**
2019/20	320	2,383			537		**3,240**
2018/19		2,090					**2,090**
2017/18		4,764					**4,764**
2016/17		17,353					**17,353**
Total Cost or Valuation	**384,811**	**67,842**	**2,437**	**3,064**	**537**	**3,286**	**461,977**

These valuations show the net current value after depreciation is applied.

NOTES TO THE ACCOUNTS

c) Movement on Property, Plant and Equipment Assets

Purchases and disposals during the year were as follows:

Movements in 2020/21:	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant and Equipment**	**Infrastructure**	**Community Assets**	**Assets Under Construction**	**Total Property, Plant and Equipment**
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2020	375,573	68,858	10,629	19,839	537	4,312	**479,748**
Additions	16,310	206	206	2,066	0	400	**19,188**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	4,759	(74)	0	0	0	0	**4,685**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	399	(768)	0	0	0	(480)	**(849)**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(12,257)	(206)	0	(2,066)	0	0	**(14,529)**
Derecognition - disposals	(1,085)	(7)	(310)	0	0	0	**(1,402)**
Other movements in cost or valuation	1,112	(166)	0	0	0	(946)	**0**
At 31 March 2021	**384,811**	**67,843**	**10,525**	**19,839**	**537**	**3,286**	**486,841**
Accumulated Depreciation and Impairment							
At 1 April 2020	0	(352)	(7,393)	(16,453)	0	0	**(24,198)**
Depreciation charge	(8,704)	(81)	(1,004)	(322)	0	0	**(10,111)**
Depreciation written out to the Revaluation Reserve	0	178	0	0		0	**178**
Depreciation written out to the Surplus / Deficit on the Provision of Services	8,704	254	0	0	0	0	**8,958**
Derecognition - disposals	0	0	309	0	0	0	**309**
At 31 March 2021	**0**	**(1)**	**(8,088)**	**(16,775)**	**0**	**0**	**(24,864)**

Net Book Value							
at 31 March 2021	**384,811**	**67,842**	**2,437**	**3,064**	**537**	**3,286**	**461,977**
at 31 March 2020	**375,573**	**68,506**	**3,236**	**3,386**	**537**	**4,312**	**455,550**

NOTES TO THE ACCOUNTS

Comparative Movements in 2019/20:	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2019	370,038	70,066	10,336	19,839	0	6,673	**476,952**
Additions	13,927	1,311	631	183	74	3,802	**19,928**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	3,481	(156)	0	0	251	0	**3,576**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(219)	(1,139)	0	0	0	(4,603)	**(5,961)**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(11,884)	(539)	0	(183)	0	0	**(12,606)**
Derecognition - disposals	(1,803)	0	(338)	0	0	0	**(2,141)**
Other movements in cost or valuation	2,033	(685)	0	0	212	(1,560)	**0**
At 31 March 2020	**375,573**	**68,858**	**10,629**	**19,839**	**537**	**4,312**	**479,748**
Accumulated Depreciation and Impairment							
At 1 April 2019	0	(275)	(6,484)	(16,127)	0	0	**(22,886)**
Depreciation charge	(8,321)	(90)	(1,246)	(326)	0	0	**(9,983)**
Depreciation written out to the Surplus / Deficit on the Provision of Services	8,321	13	0	0	0	0	**8,334**
Derecognition - disposals	0	0	337	0	0	0	**337**
At 31 March 2020	**0**	**(352)**	**(7,393)**	**(16,453)**	**0**	**0**	**(24,198)**

Net Book Value							
at 31 March 2020	**375,573**	**68,506**	**3,236**	**3,386**	**537**	**4,312**	**455,550**
at 31 March 2019	**370,038**	**69,791**	**3,852**	**3,712**	**0**	**6,673**	**454,066**

d) Impairments

Valuation reductions of Property, Plant and Equipment Assets in 2020/21 were £2.468 million (Council Dwellings £661,000, Garages £307,000 and General Fund Assets £1.500 million), but valuation increases were £15.290 million (Council Dwellings £14.168 million, Other HRA Properties £5,000, and other General Fund Assets £1.117 million)

Offsetting the net valuation increases was non-enhancing capital expenditure of £12.301 million on Council Dwellings, and £2.850 million on General Fund Assets, which was impaired via the Comprehensive Income and Expenditure Statement in the year.

Net valuation reductions of Investment Properties in 2020/21 were £150,000.

e) Capital Expenditure Contract Commitments

As at 31 March 2021, the Council was committed through contracts to future capital expenditure in respect of the following major schemes:

	Period of investment	£000
Environment and Regulatory Services		
Hydrodynamics	2021/22	305
Geodata	2021/22	85
Habitat Mapping	2021/22	82
Trimble Kit	2021/22	82
Finance, Corporate Services and Improvement		
Vehicles	2021/22	3,574
Total		**4,128**

12. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement:

2019/20		2020/21
£000		£000
(379)	Rental income from investment property	(512)
38	Direct operating expenses arising from investment property	16
0	Capital expenditure not enhancing value	353
232	Net (gains)/losses from fair value adjustments	150
(109)	**Net (gain)/loss**	**7**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties:

2019/20		2020/21
£000		£000
5,181	**Balance at start of the year**	**9,454**
	Additions:	
4,534	Purchases	3,433
(29)	Capital expenditure not enhancing value	(353)
(232)	Net gains/(losses) from fair value adjustments	(150)
9,454	**Balance at end of the year**	**12,384**

Under IFRS13 a level 2 fair value measurement has been carried out for all investment properties using a market comparable approach by the internal valuers.

13. INTANGIBLE ASSETS

The authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment.

2019/20		2020/21
£000		£000
0	**Opening Balance**	**0**
217	Additions	268
(217)	Capital Expenditure not enhancing value	(268)
0	**Closing Balance**	**0**

14. LONG-TERM INVESTMENTS

The Council is permitted to invest and lend a proportion of its funds for more than 364 days. At 31 March 2021 the Council had 11 loans which had a remaining maturity term of more than one year.

2019/20		2020/21
£000		£000
28,786	**Opening Balance**	**18,636**
227	Purchases	387
33	Revaluations Gains	1,151
(1,397)	Revaluations Losses	(46)
(8)	Repayments	(8)
(9,005)	Transfers to Short-Term Investments	(3,000)
18,636	**Closing Balance**	**17,120**

15. LONG-TERM DEBTORS

Long-term debtors includes deferred capital receipts for house purchases, loans to local trusts/organisations and staff car/cycle loans.

31 March 2020		31 March 2021
£000		£000
8	Car Loans	5
602	Lymington Harbour Commissioners - Principal	502
553	Rent to Mortgages House Purchases	439
304	Appletree Property Holdings	1,766
1,467	**Total**	**2,712**

16. SHORT-TERM INVESTMENTS

Short-term investments include all deposits with a term of less than one year other than Cash and Cash Equivalents.

2019/20		2020/21
£000		£000
28,808	**Opening Balance**	**20,062**
55,210	Purchases	75,500
6	Revaluations Gains	30
(41)	Revaluations Losses	0
(17)	Movement in Accrued Interest	(35)
(72,913)	Repayments	(73,502)
4	Expected Credit Loss	(2)
9,005	Transfers from Long-Term Investments	3,000
20,062	**Closing Balance**	**25,053**

17. INVENTORIES

Inventories are goods that are acquired in advance of their use in the provision of services or their resale. They are charged to the Comprehensive Income and Expenditure Statement in the year that they are consumed or sold.

2019/20		2020/21
£000		£000
338	**Balance at 1 April**	285
1,599	Purchases	1,974
(1,628)	Recognised as an expense in the year	(1,973)
(24)	Written off balances	(19)
285	**Balance at 31 March**	**267**

18. SHORT-TERM DEBTORS

An analysis of the Council's debtors and payments in advance as at 31 March is shown below:

31 March 2020		31 March 2021
£000		**£000**
1,664	Central Government Bodies (a)	6,283
	Local Authorities:	
510	Hampshire County Council	2,599
17	Police and Crime Commissioner for Hampshire	2
0	Hampshire and Isle of Wight Fire and Rescue Service	213
15	New Forest National Park Authority	45
6	Other Local Authorities	258
81	NHS Bodies	4
90	Public Corporations and Trading Funds	148
	Other Entities and Individuals:	
480	Council Tax Payers	637
356	Business Rate Payers	599
942	Housing Tenants' Rents (b)	1,027
7,501	Other Debtors and Payments in Advance	5,676
11,662	**Total**	**17,491**

Short-term debtors were higher at the 31 March 2021 by £5.829 million when compared to 31 March 2020, the main contributing factors to this were:

(a) Central Government Bodies debtors increased by £4.619 million. This was principally due to the following: as at 31 March 2021 £1.254 million more was accrued for reimbursement of benefits from the Department of Works and Pensions in comparison to the end of 2019/20; as well as coast protection grants due being £1.375 million more and £1.677 million being due for the Local Government Income Compensation Scheme for lost sales, fees and charges as a result of COVID-19.

(b) Hampshire County Council and the Hampshire and Isle of Wight Fire and Rescue Service have increased mainly due to National Non Domestic Rates moving from creditors at the end of 2019/20, £958,000 and £71,000 respectively to debtors at 31 March 2021 of £1.919 million and £213,000.

(c) Other Debtors and Payments in Advance has decreased in the main due to no accrual required for payments to benefits claimants, this had been £1.051 million at the end of 2019/20.

The bad debts provision is shown below:

31 March 2020		31 March 2021
£000		**£000**
(189)	Council Tax Payers	(258)
(123)	Business Rate Payers	(279)
(660)	Housing Tenants' Rents	(755)
(1,695)	Other Debtors	(1,695)
(2,667)	**Total**	**(2,987)**

19. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2020		31 March 2021
£000		£000
8	Cash held by the Council	8
206	Bank current accounts	549
18,339	Short-Term deposits with building societies/banks and other financial institutions	8,321
18,553	**Total**	**8,878**

20. SHORT-TERM BORROWING

Short-term borrowing refers to loans that are repayable over a period of less than 12 months.

The Council has no short-term loans, but its long-term loans are repayable by equal instalments of principal. In 2012/13 the Council borrowed £142.7 million for the Housing Revenue Account financing settlement. The first £4.1 million principal repayment instalment of this borrowing was paid in 2017/18. The annual HRA settlement repayment of £4.1 million together with the next instalment for the Lymington Harbour Commissioners' loan of £200,700 is transferred each year from long term to short term borrowing as the total of £4.301 million is payable within 12 months.

In addition, total accrued interest of £45,580 on short-term and long-term borrowing is also payable within 12 months and is included in this category.

2019/20		2020/21
£000		£000
(4,349)	**Balance at 1 April**	**(4,348)**
4301	Loans Repaid	4,301
(4,301)	Transferred from Long-Term Borrowing	(4,301)
1	Movement in accrued interest on all Borrowing	2
(4,348)	**Balance at 31 March**	**(4,346)**

21. SHORT-TERM CREDITORS

An analysis of the Council's creditors and receipts in advance as at 31 March is shown below:

31 March 2020		31 March 2021
£000		**£000**
(12,281)	Central Government Bodies (a)	(17,728)
	Local Authorities:	
(2,307)	Hampshire County Council	(601)
(177)	Police and Crime Commissioner for Hampshire	(58)
(166)	Hampshire and Isle of Wight Fire and Rescue Service	(10)
(4)	New Forest National Park Authority	(4)
(609)	Developers' Contributions Open Space Maintenance	(162)
(2,422)	Other Local Authorities (b)	(833)
(3)	NHS Bodies	0
(7)	Public Corporations and Trading Funds	(3)
	Other Entities:	
(294)	Council Tax Payers	(345)
(178)	Business Rate Payers (c)	(265)
(5,607)	Other Creditors and Receipts in Advance (d)	(7,426)
(24,055)	**Total**	**(27,435)**

Short term creditors have increased by £3.38 million from 2019/20 to 2020/21:

(a) The Central Government Bodies balance is £5.447 million higher mainly due to grants received in advance from the Ministry for Housing, Communities and Local Government being £6.059 million more as at 31 March 2021.

(b) Hampshire County Council is lower at 31 March 2021 by £1.706 million mainly due to movements in the Collection Fund, including Council Tax due to the County reducing by £855,000 and Business Rates moving from a creditor of £958,000 to a debtor of £1.919 million.

(c) Other Local Authorities is lower at 31 March 2021 by £1.594 million for the regional coastal monitoring programme.

(d) Other Creditors and Receipts in Advance have increased by £1.819 million. This was due in the main to increases on accruals for Housing Maintenance of £445,000 and Health and Leisure Centres Direct Debits of £175,000 and higher Sundry Creditors outstanding invoice payments of £1.242 million.

22. DEVELOPERS' CONTRIBUTIONS – SHORT-TERM RECEIPTS IN ADVANCE

The Council has received Developers' Contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor.

2019/20		2020/21
£000		£000
(62)	**Balance at 1 April**	**0**
10	Financing of Capital Expenditure	0
52	Transfer to/(from) other Developers' Contribution Categories	0
0	**Balance at 31 March**	**0**

23. LONG-TERM BORROWING

Long-term borrowing refers to loans that are repayable over a period in excess of 12 months.

At 1 April 2020 the Council was holding long-term debt of £126.906 million. This included the sum borrowed in 2012/13 relating to the refinancing of the Housing Revenue Account as well as a loan raised in March 2014 to finance an equivalent loan made in 2013/14 to the Lymington Harbour Commissioners. At 31 March 2021 £200,700 relating to the Harbour Commissioners' loan was repayable within 12 months, as well as the annual repayment of £4.1 million of the loan taken regarding the Housing Revenue Account financing settlement, therefore a balance of long-term debt of £122.605 million was outstanding at the year end.

2019/20		2020/21
£000		£000
(131,207)	**Balance at 1 April**	**(126,906)**
4,301	Transferred to Short-Term Borrowing	4,301
(126,906)	**Balance at 31 March**	**(122,605)**

24. PROVISIONS

The Council maintains provisions to cover liabilities or losses that are anticipated to arise, but which cannot be quantified with certainty.

	Balance 1 April 2019	Additional Provisions Made 2019/20	Amounts Used 2019/20	Unused Amounts Reversed 2019/20	Balance 31 March 2020	Additional Provisions Made 2020/21	Amounts Used 2020/21	Unused Amounts Reversed 2020/21	Balance 31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Business Rates	(3,990)	(936)	1,098	0	**(3,828)**	(797)	1,729	0	**(2,896)**
Private Sector Leasing Dilapidations	(102)	0	52	0	**(50)**	0	0	0	**(50)**
Redundancy	(174)	0	178	(4)	**0**	(22)	0	0	**(22)**
Total Provisions	**(4,266)**	**(936)**	**1,328**	**(4)**	**(3,878)**	**(819)**	**1,729**	**0**	**(2,968)**

Business Rates

On 1 April 2013 the Government introduced the Business Rates Retention Scheme, which required the Council to make a provision in the Collection Fund for successful appeals against rating valuations. The total provision made at 31 March 2021 was £7.240 million, of which £2.896 million relates to this Council's share of anticipated refunds.

Private Sector Leasing Dilapidations

The Council is responsible for ensuring the repair of private sector houses that are leased. The Council had possible obligations on 126 properties at 31 March 2021. A revenue budget of £93,000 exists in 2021/22 for void repairs and dilapidation costs but a provision of £50,000 is also held to cover the potential for additional costs should a large number of dilapidations occur in any particular year.

Redundancy

The Redundancy provision is put in place once approval for the termination of employment has been agreed by the Council.

25. CAPITAL GRANTS – RECEIPTS IN ADVANCE

The Council has received capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor. The balances and movements on contributions were as follows:

2019/20				2020/21		
Government Grants	Other Grants/ Contributions	Total		Government Grants	Other Grants/ Contributions	Total
£000	£000	£000		£000	£000	£000
(168)	**0**	**(168)**	**Balance at 1 April**	**(544)**	**0**	**(544)**
(1,963)	(42)	(2,005)	New Receipts	(3,862)	(45)	(3,907)
1,587	42	1,629	Financing of Capital Expenditure	3,005	45	3,050
(544)	**0**	**(544)**	**Balance at 31 March**	**(1,401)**	**0**	**(1,401)**

26. DEVELOPERS' CONTRIBUTIONS – LONG -TERM RECEIPTS IN ADVANCE

The Council has received Developers' Contributions that have yet to be recognised as income, as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor.

2019/20		2020/21
£000		£000
(751)	**Balance at 1 April**	**(625)**
2	Financing of Capital Expenditure	48
124	Transfer to/(from) other Developers' Contribution Categories	0
(625)	**Balance at 31 March**	**(577)**

27. CAPITAL RECEIPTS RESERVE

The Capital Receipts Reserve principally reflects the proceeds from the disposal of Property, Plant and Equipment assets that have yet to be utilised on new capital expenditure.

2019/20		2020/21
£000		£000
(5,801)	**Balance at 1 April**	**(4,618)**
(3,301)	New Receipts (including interest)	(2,325)
574	Transfers to Government	662
3,910	Financing of Capital Expenditure	2,710
(4,618)	**Balance at 31 March**	**(3,571)**

28. DEVELOPERS' CONTRIBUTIONS / COMMUNITY INFRASTRUCTURE LEVY UNAPPLIED

The Developers' Contributions (DCs) and Community Infrastructure Levy (CIL) Unapplied accounts reflect contributions which have no conditions attached to them and have therefore been credited to the Reserves via the Comprehensive Income and Expenditure Account.

2019/20			2020/21	
CIL	DCs		CIL	DCs
£000	£000		£000	£000
(4,094)	**(3,526)**	**Balance at 1 April**	**(5,212)**	**(4,247)**
(1,437)	(812)	New Receipts	(1,055)	(941)
0	(176)	Transfers to/(from) other Developers' Contribution Categories	0	0
0	80	Financing of Capital Expenditure	0	405
75	187	Financing of Revenue Expenditure	63	175
244	0	Payments to Town and Parish Councils	206	0
(5,212)	**(4,247)**	**Balance at 31 March**	**(5,998)**	**(4,608)**

29. REVALUATION RESERVE

This Reserve records the increase in the valuation of assets since 1 April 2007, under the system of capital accounting.

The Reserve is written down by any accumulated revaluation surplus of non-current assets as they are disposed of and debited or credited with deficits or surpluses arising on the year's revaluations.

2019/20				2020/21		
General Fund	Housing Revenue Account	Total		General Fund	Housing Revenue Account	Total
£000	£000	£000		£000	£000	£000
(20,072)	**(18,255)**	**(38,327)**	**Balance at 1 April**	**(20,040)**	**(21,824)**	**(41,864)**
(445)	(3,691)	(4,136)	Upward revaluation of assets	(617)	(5,071)	(5,688)
477	83	560	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	519	306	825
32	(3,608)	(3,576)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(98)	(4,765)	(4,863)
0	39	39	Accumulated gains on assets sold or scrapped	0	132	132
(20,040)	**(21,824)**	**(41,864)**	**Balance at 31 March**	**(20,138)**	**(26,457)**	**(46,595)**

30. CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing their acquisition or enhancement under statutory provisions. The account is debited with the costs of depreciation, impairment and amortisations as assets are consumed and credited with the amounts set aside by the Council for the financing of capital expenditure.

The account contains accumulated gains and losses on Investment Properties and gains on Property, Plant and Equipment assets arising before 1 April 2007.

The balance on the Capital Adjustment Account is matched by non-current assets within the Balance Sheet and does not represent actual funds available to the Council.

2019/20			2020/21	
£000	£000		£000	£000
	(279,466)	**Balance at 1 April**		(283,315)
		Reversal of items relating to capital expenditure or credited to the Comprehensive Income and Expenditure Statement:		
9,983		Charges for depreciation and impairment of non-current assets	10,110	
(2,373)		Revaluation (Gains) / Losses on Property, Plant and Equip.	(8,109)	
12,852		Capital Expenditure not enhancing value	15,151	
1,290		Revenue expenditure funded from capital under statute	998	
1,764		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	961	
	23,516	Net written out amount of the cost on non-current assets consumed in the year		19,111
		Capital financing applied in the year:		
(3,910)		Use of the Capital Receipts Reserve to finance new capital expenditure	(2,710)	
(8,321)		Use of the Major Repairs Reserve to finance new capital expenditure	(8,704)	
(1,641)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(3,098)	
(80)		Application of grants / contributions to capital financing from the Capital Grant / Developers' Contributions Unapplied Accounts	(405)	
(1,222)		Provision for the financing of capital investment charged against the General Fund balance	(1,135)	
(4,100)		Provision for the financing of capital investment charged against the HRA balance	(4,100)	
(8,323)		Capital expenditure charged against the General Fund and HRA balances	(2,278)	
	(27,597)			(22,430)
	232	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		150
	(283,315)	**Balance at 31 March**		**(286,484)**

31. FINANCIAL INSTRUMENTS REVALUATION RESERVE

The Financial Instruments Revaluation Reserve contains the movements made by the Council arising from changes in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

2019/20		2020/21
£000		£000
(172)	**Balance at 1 April**	**1,219**
(27)	Upward revaluation of investments	(1,177)
1,419	Downward revaluation of investments	45
(1)	Expected credit loss on investments	3
1,391	(Surplus) or deficit on revaluation of investments	(1,129)
1,219	**Balance at 31 March**	**90**

32. DEFERRED CAPITAL RECEIPTS RESERVE

The Deferred Capital Receipts Reserve represents the amount of capital receipts owed to the Council that have not yet been received. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

2019/20		2020/21
£000		£000
(555)	**Balance at 1 April**	**(558)**
(3)	New Receipts/Revaluations	(4)
0	Transfer to the Capital Receipts Reserve upon receipt of cash	118
(558)	**Balance at 31 March**	**(444)**

33. PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Full details of the Pension Scheme are set out in Note 43.

2019/20		2020/21
£000		£000
93,092	**Balance at 1 April**	**99,470**
1,661	Remeasurement of the net defined liability / (asset)	11,276
10,612	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	10,434
(5,895)	Employer's pensions contributions and direct payments to pensioners payable in the year	(4,476)
99,470	**Balance at 31 March**	**116,704**

34. COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund is a statutory fund in which the Council records transactions for council tax and business rates. The fund balance is allocated as follows:

31 March 2020				31 March 2021		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
(621)	0	(621)	Central Government	14,197	0	14,197
(112)	(1,075)	(1,187)	Hampshire County Council	2,555	(401)	2,154
0	(175)	(175)	Police and Crime Commissioner for Hampshire	0	(72)	(72)
(12)	(59)	(71)	Hampshire Fire and Rescue Authority	284	(19)	265
(745)	(1,309)	(2,054)		17,036	(492)	16,544
(497)	(226)	(723)	New Forest District Council	11,357	(74)	11,283
(1,242)	**(1,535)**	**(2,777)**		**28,393**	**(566)**	**27,827**

The balances on each fund will be taken into account when calculating the council tax and business rates in future years.

NOTES TO THE ACCOUNTS

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2019/20		2020/21
£000		£000
(9,983)	Charges for depreciation and impairment	(10,110)
2,373	Revaluation Gains/(Losses) on Property, Plant and Equipment	8,109
10	Revaluation/Movement in Deferred Debtors	1
(1,397)	Revaluation Gains/(Losses) on Investments	1,132
(12,852)	Capital Expenditure not enhancing value	(15,151)
(232)	Movements in the value of Investment Properties	(150)
2,407	Capital grants applied to the financing of Capital Expenditure	3,714
(1,804)	Carrying amount of Non-Current Assets sold	(1,093)
(53)	Increase/(Decrease) in Inventories	(18)
1,152	Increase/(Decrease) in Debtors	5,829
(17)	Increase/(Decrease) in Investments Accrued Interest	(35)
(238)	(Increase)/Decrease in impairment for Provision for Bad Debts	(322)
(4,043)	(Increase)/Decrease in Creditors	(9,211)
148	Adjustment to Creditors re Capital Expenditure	(55)
(4,717)	Movement in Pension Liability	(5,958)
388	Other non-cash items charged to the net surplus or deficit on the provision of services	910
(28,858)	**Adjustment to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements**	**(22,408)**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019/20		2020/21
£000		£000
3,169	Proceeds adjustment from the sale of property, plant and equipment and investment property	2,165
3,169		**2,165**

The cash flows for operating activities include the following items:

2019/20		2020/21
£000		£000
(1,377)	Investment interest received	(926)
4,352	Loan interest paid	4,264
2,975		**3,338**

36. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2019/20 £000		2020/21 £000
24,530	Purchase of property, plant and equipment, investment property and intangible assets	22,944
55,437	Purchase of short-term and long-term investments	75,887
304	Other payments for investing activities	1,461
(3,169)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,165)
(72,921)	Proceeds from short-term and long-term investments	(73,510)
(2,446)	Other receipts from investing activities	(3,932)
1,735	**Net cash flows from investing activities**	**20,685**

37. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2019/20 £000		2020/21 £000
(2,264)	Other receipts from financing activities	0
4,301	Repayments of short and long-term borrowing	4,301
0	Other payments for financing activities	5,028
2,037	**Net cash flows from financing activities**	**9,329**

38. ACCUMULATING ABSENCES ADJUSTMENT ACCOUNT

This account represents the reversal of the accrual for compensated absences. The accrual is required under the Code but under regulations is not allowed to count as expenditure against the General Fund or Housing Revenue Account.

2019/20			2020/21	
£000	£000		£000	£000
	293	**Balance at 1 April**		**282**
(293)		Settlement or cancellation of accrual made at the end of the preceding year	(282)	
282		Amounts accrued at the end of the current year	593	
	(11)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		311
	282	**Balance at 31 March**		**593**

39. AGENCY SERVICES

These figures include net expenditure on services that the Council provides on an agency basis for highways and on-street parking enforcement.

2019/20		2020/21		
Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
	Hampshire County Council			
(63)	- Highways	305	(305)	0
188	- On-Street Parking	0	0	0
125	**Agency Expenditure**	**305**	**(305)**	**0**

40. CONTINGENT ASSETS

The Council is unaware of any Contingent Assets as at the Balance Sheet date.

41. CONTINGENT LIABILITIES

In April 2012 the Dibden Golf Course staff transferred to Mytime Active, who gained admitted body status to the Hampshire County Council Government Pension Scheme. New Forest District Council is the sponsoring body, acting as guarantor for any contributions to the Pension Fund should they not be paid by Mytime Active. As at 31 March 2021 no such guarantee has been exercised.

42. CAPITAL EXPENDITURE AND CAPITAL FINANCING

Capital expenditure is paid for (financed) in various ways including borrowing, the use of internal resources, the receipt of grant and directly from revenue income. Capital expenditure on behalf of other authorities is recharged directly to them.

The Capital Financing Requirement shows the overall indebtedness of the Council. This debt need not be external loans that have been raised, but it can be internal funds that the Council has used temporarily instead of raising debt. The expectation is that borrowing may be required in the future.

Where applicable the Council is required to set aside a revenue provision for the redemption of debt and for a future borrowing requirement if external debt has not actually been raised.

The Council has a choice in the method of calculating the provision and has chosen the one that represents the depreciation calculation of those assets financed by the debt. Therefore, when the value of the asset financed by debt has been fully depreciated the amount of the revenue provision that has been set aside will be sufficient to repay the loan for that asset.

New vehicles, plant and equipment, above a de minimis level of £10,000, are funded by a future borrowing requirement. In order to make a provision to repay this future requirement a revenue provision is made. This sum was £961,000 in 2020/21 and was charged to the General Fund together with £133,000 in relation to investment property acquisitions. In addition, £4.1 million for the next principal repayment was made regarding the Housing Revenue Account Self-Financing Settlement and £41,000 was charged to the Housing Revenue for future provision for loan repayment on the Acquisitions and Development Programme.

This table sets out the transactions required for the financing of capital expenditure and permitted adjustments for each year.

	2019/20		**2020/21**	
	£000	**£000**	**£000**	**£000**
Opening Capital Financing Requirement		141,454		140,052
Capital Investment				
Property, Plant and Equipment Assets	24,461		22,621	
Long-Term Investments	227		387	
Intangible Assets	217		268	
REFCUS	1,290	26,195	998	24,274
Sources of Finance				
Capital Receipts	(3,910)		(2,710)	
Government Grants	(1,629)		(3,050)	
Revenue Contributions	(8,322)		(2,278)	
Major Repairs Reserve	(8,321)		(8,704)	
Developers' Contributions	(93)	(22,275)	(453)	(17,195)
Other Adjustments for the Repayment of Debt				
Repayment of Loan Principal		(4,100)		(4,100)
Revenue Provision		(1,222)		(1,135)
Closing Capital Financing Requirement		**140,052**		**141,896**

Explanation of movements in Year	**2019/20**	**2020/21**
	£000	**£000**
Increase in underlying need to borrow (unsupported by Government financial assistance)	3,920	7,079
Reduction (-)/increase in need to borrow because of:		
- Repayment of Loan Principal	(4,100)	(4,100)
- Revenue Provision	(1,222)	(1,135)
	(1,402)	1,844

43. DEFINED BENEFIT PENSION SCHEME

a) Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Hampshire County Council Pension Scheme. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with the investment assets.

b) Transactions Relating to Post-employment (Retirement) Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid out as pensions. However, the charge required to be made against the General Fund is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Account via the Movement in Reserves Statement. The following transactions have been made during the year:

	2019/20	2020/21
	£ million	**£ million**
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service cost comprising:		
Current service cost	8.156	8.161
Past service cost	0.292	0.032
Financing and Investment Income and Expenditure		
Net Interest expense	2.164	2.241
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	10.612	10.434
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	10.169	(40.139)
Actuarial (Gains) / Losses arising on changes in demographic assumptions	(6.872)	0.000
Actuarial (Gains) / Losses arising on changes in financial assumptions	(7.406)	54.743
Actuarial (Gains) / Losses due to liability experience	5.770	(3.328)
Total Net Defined Benefit Liability Re-measured	1.661	11.276
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	12.273	21.710
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(6.378)	(17.234)
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to scheme	**5.895**	**4.476**

c) Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

Assets and Liabilities	31 March 2020	31 March 2021
	£ million	£ million
Present value of the defined benefit obligation	(276.663)	(336.912)
Fair value of plan assets	177.193	220.208
Net liability arising from defined benefit obligation	**(99.470)**	**(116.704)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment retirement benefits. The total net liability of £116.704 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2019/20	2020/21
	£ million	£ million
Opening balance at 1 April	(276.162)	(276.663)
Current Service Cost	(8.156)	(8.161)
Past Service Cost	(0.292)	(0.032)
Interest Cost	(6.556)	(6.299)
Contributions from scheme Participants	(1.397)	(1.471)
Remeasurement (Gains) and Losses:		
Actuarial Gains/(Losses) arising from changes in financial assumptions	7.406	(54.743)
Actuarial Gains/(Losses) due to liability experience	(5.770)	3.328
Actuarial Gains/(Losses) arising from changes in demographic assumptions	6.872	0.000
Benefits Paid	7.392	7.129
Closing balance at 31 March	**(276.663)**	**(336.912)**

NOTES TO THE ACCOUNTS

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	2019/20	2020/21
	£ million	**£ million**
Opening fair value of scheme assets at 1 April	183.070	177.193
Interest Income	4.392	4.058
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	(10.169)	40.139
Contributions from employer	5.895	4.476
Contributions from employees into the scheme	1.397	1.471
Benefits paid	(7.392)	(7.129)
Closing fair value of scheme assets at 31 March	**177.193**	**220.208**

d) Local Government Pension Scheme assets (fair value) comprised

31 March 2020		Assets	31 March 2021	
£ million	**%**		**£ million**	**%**
3.54	2.0	Cash and Cash Equivalents	3.08	1.4
93.38	52.7	Equity Investments	125.52	57.0
38.63	21.8	Government Bonds	38.10	17.3
0.00	0.0	Corporate Bonds	0.00	0.0
12.93	7.3	Property	13.43	6.1
28.71	16.2	Other Assets	40.08	18.2
177.19	100.0	**Total Assets**	**220.21**	100.0

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by AON Hewitt Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The main assumptions used in their calculations have been:

Financial Assumptions	**31 March 2020**	**31 March 2021**
	%	**%**
Rate of inflation - CPI	2.0	2.7
Rate of increase in salaries	3.0	3.7
Rate of increase in pensions	2.0	2.7
Pension Accounts Revaluation Rate	2.0	2.7
Rate of discounting scheme liabilities	2.3	2.1

Mortality Assumptions	31 March 2020	31 March 2021
	Years	Years
Pensioner member aged 65 at accounting date		
Males	23.0	23.1
Females	25.5	25.5
Active member aged 45 at accounting date		
Males	24.7	24.8
Females	27.2	27.3

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the scheme	Increase in Assumption	Decrease in Assumption
	£ million	£ million
Longevity (increase or decrease in 1 year)	11.92	(11.59)
Rate of inflation (increase or decrease by 0.1%)	5.96	(5.96)
Rate of increase in salaries (increase or decrease by 0.1%)	0.66	(0.66)
Rate of increase in pensions (increase or decrease by 0.1%)	5.96	(5.96)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(6.62)	6.62

f) Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The latest triennial valuation was completed on 31 March 2019.

The Council anticipates paying standard contributions of £4.310 million to the fund for the accounting period ending 31 March 2021. In addition, estimated Strain on Fund contributions will be £381,000.

The weighted average duration of the defined benefit obligation for scheme members is 20.3 years (20.3 years 2019/20).

Further information on the Pension Fund can be obtained from:
Pensions Services
Hampshire County Council
The Castle
Winchester
SO23 8UB Telephone: (01962) 845588

44. EXTERNAL AUDIT COSTS

The following fees payable relating to external audit and inspection were incurred:

2019/20		2020/21
£000		£000
43	External audit services carried out by the appointed auditor	43
12	Certification of grant claims and returns	12
55		**55**

In addition, the external auditor has submitted fee variations to Public Sector Audit Appointments Limited for the 2019/20 and 2020/21 financial years.

45. GRANTS INCOME

Details of income credited to the Comprehensive Income and Expenditure Statement are as follows:

2019/20		2020/21
£000	**Service Specific Revenue Grants and Contributions (included in cost of services)**	£000
	Ministry of Housing, Communities and Local Government	
(141)	Council Tax Benefits Admin	(141)
(70)	Covid-19 New Burdens/Compliance	(583)
0	Covid 19 Hardship Fund	(886)
(1,170)	Disabled Facilities Grants	(510)
(72)	Family Annex Grant	(79)
(364)	Flexible Homelessness Support	(364)
(59)	Furlough Scheme	(1,059)
(55)	New Burdens Homelessness Reduction Act	(155)
0	Next Steps Accommodation	(257)
(276)	NNDR Collection	(275)
(100)	Rough Sleepers	(247)
(103)	Other MHCLG	(77)
	Department for Work and Pensions	
(334)	Housing and Council Tax Benefit Administration	(340)
(31,637)	Housing Benefit Subsidy	(30,703)
(264)	Discretionary Housing Payments	(368)
(127)	Other DWP	(109)
	Other Government Grants	
(21)	Individual Electoral Registration	(11)
(49)	Apprenticeship Levy	(44)
0	Other	(1)
(34,842)	**Total Government Grants**	**(36,209)**
	Other Grants and Contributions	
(229)	Project Integra - Recycling	(303)
(299)	Developers' Contributions	(1,075)
(25)	Disabled Facilities Grants	(19)
(72)	Other	0
(625)	**Total Other Grants and Contributions**	**(1,397)**
(35,467)	**Total Service Revenue Grants and Contributions**	**(37,606)**

NOTES TO THE ACCOUNTS

2019/20		2020/21
£000	**Non-Ringfenced Revenue Government Grants**	**£000**
	Non Domestic Rates Income and Expenditure	
23,952	Tariff	24,518
(22,766)	Retention Scheme Income	(11,566)
(2,625)	Surplus Business Rates Distributed from Pool	(3,513)
(4,075)	S31 Grant (New Forest District Council proportion)	(15,381)
(5,514)		**(5,942)**
	Ministry of Housing, Communities and Local Government	
(526)	New Homes Grant	(286)
0	Council Tax Freeze Grant	(8)
0	Council Tax Income Grant	(21)
0	Covid Income Loss Reimbursement Grant	(4,263)
0	Covid Emergency Grant	(2,238)
(526)		**(6,816)**
(6,040)	**Total Non-Ringfenced Revenue Government Grants**	**(12,758)**
	Capital Grants and Contributions	
(157)	Coast Protection	(1,548)
(14)	Eling Tide Mill	0
(240)	Housing Acquisitions and Development	(947)
(2)	Milford Promenade	0
(8)	Public Sector Disabled Facilities Grants	(26)
(8)	Lymington Quay	0
(5)	Lymington Town Hall	0
(721)	Developers' Contributions	(361)
(1,118)	Community Infrastructure Levy	(786)
(134)	Capital Receipts	(46)
(2,407)	**Total Capital Grants and Contributions**	**(3,714)**
(43,914)	**Total Grants and Contributions Income**	**(54,078)**

46. LEASES

Finance Leases with the Council acting as Lessee

In 2020/21 there were no rental payments to lessors for Finance Leases.

Operating Leases with the Council acting as Lessee

The Council has acquired 20 properties by entering into operating leases. The assets are not owned by the Council and no asset is recorded in the Council's accounts.

Future minimum lease payments due under the non-cancellable leases in future years are:

Lease Rental Payments for:	31 March 2020	31 March 2021
	£000	£000
Not later than one year	144	151
Later than one year but not later than 5 years	370	471
Later than 5 years	534	453
Total Lease Rentals	**1,048**	**1,075**

Expenditure of £144,360 was charged to the Comprehensive Income and Expenditure Statement during the year (£106,292 in 2019/20).

Operating Leases with the Council acting as Lessor

The Council leases out property and equipment under operating leases for the provision of community services and economic development.

The future minimum lease payments receivable under the material leases in future years are:

Lease Rental Payments for:	31 March 2020	31 March 2021
	£000	£000
Not later than one year	906	1,163
Later than one year but not later than 5 years	3,236	3,399
Later than 5 years	28,353	27,792
Total Lease Rentals	**32,495**	**32,354**

The portion of the lease rental for Hythe Marina that is based on a profit share basis has not been included in this table. As the profit cannot be accurately projected over the 999 year term of the lease any estimate will be inaccurate and therefore has been omitted. The income for 2020/21 was £139,386 (2019/20 £139,695).

There are 10 leases that are not included in this table, that have little value or contain an immediate break clause.

47. MEMBERS' ALLOWANCES

During 2020/21, payments to Members of the Council amounted to £533,158. For 2019/20 the equivalent amount was £553,009.

48. SIGNIFICANT INTEREST

The Council has opted to take up its full member rights of three board members, out of seven, at the New Forest Enterprise Centre. This is classified as significant interest, but financial consolidation with the Council's accounts has not been applied, as the relationship does not meet the criteria of a Joint Venture, Associate or Subsidiary, nor is the turnover material.

49. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Financial Liabilities and Financial Assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities

The financial liabilities held by the Council during the year were long-term loans from the Public Works Loan Board and are measured at amortised cost.

FINANCIAL LIABILITIES	Long-Term		Short-Term	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000
Loans at amortised cost:				
PWLB principal sum borrowed	126,906	122,605	4,301	4,301
Accrued Interest	0	0	47	46
Total Borrowing	**126,906**	**122,605**	**4,348**	**4,347**
Liabilities at amortised cost:				
Trade Creditors	0	0	4,783	7,105
Total Financial Liabilities	**126,906**	**122,605**	**9,131**	**11,452**

Financial Assets

The financial assets held by the Council during the year are held under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:

- Cash
- Bank current and notice accounts
- Fixed term deposits with banks and building societies
- Loans to other Local Authorities
- Loans to Housing Associations
- Certificates of deposit and covered bonds issued by banks and building societies

Fair value through profit and loss (all other financial assets) comprising:

- Managed money market funds
- Pooled equity and property funds
- Appletree Property Holdings

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

FINANCIAL ASSETS	Long-Term		Short-Term	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000
At amortised cost:				
Principal	6,045	3,040	18,006	23,000
Accrued Interest	0	0	86	51
Credit Loss Allowance	(1)	(1)	(4)	(2)
At fair value through profit & loss:				
Fair value	12,592	14,081	1,974	2,004
Total Investments	**18,636**	**17,120**	**20,062**	**25,053**
At amortised cost				
Cash	0	0	214	557
Cash equivalents	0	0	3,070	3,090
Accrued interest	0	0	2	2
Loss Allowance	0	0	(3)	(1)
At fair value through profit & loss:				
Fair value	0	0	15,270	5,230
Total Cash and Cash Equivalents	**0**	**0**	**18,553**	**8,878**
Loans and receivables:				
Trade Debtors	0	0	5,090	4,927
Total Financial Assets	**18,636**	**17,120**	**43,705**	**38,858**

Accrued interest is already accounted for in the Comprehensive Income and Expenditure Account.

NOTES TO THE ACCOUNTS

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments only are made up as follows:

	2019/20				2020/21			
	Financial Liabilities Amortised Cost	Financial Assets		Total	Financial Liabilities Amortised Cost	Financial Assets		Total
		Amortised Cost	Fair Value through Profit and Loss			Amortised Cost	Fair Value through Profit and Loss	
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	4,350	0	0	4,350	4,268	0	0	4,268
Losses from change in fair value	0	0	1,398	1,398	0	0	45	45
Impairment losses	0	4	0	4	0	3	0	3
Interest payable and similar charges	**4,350**	**4**	**1,398**	**5,752**	**4,268**	**3**	**45**	**4,316**
Interest Income	0	(510)	0	(510)	0	(197)	0	(197)
Dividend Income	0	0	(778)	(778)	0	0	(626)	(626)
Gains from changes in fair value	0	0	(27)	(27)	0	0	(1,177)	(1,177)
Impairment loss reversals	0	(6)	0	(6)	0	(7)	0	(7)
Interest and Investment Income	**0**	**(516)**	**(805)**	**(1,321)**	**0**	**(204)**	**(1,803)**	**(2,007)**
Net Impact on surplus/deficit on provision of services	**4,350**	**(512)**	**593**	**4,431**	**4,268**	**(201)**	**(1,758)**	**2,309**
Impact on Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net (Gain)/Loss for the year	**4,350**	**(512)**	**593**	**4,431**	**4,268**	**(201)**	**(1,758)**	**2,309**

Financial Instruments Key Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry of Housing, Communities and Local Government guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- Credit Risk – the possibility that the counterparty to a financial asset will fail to meet is contractual obligations, causing a loss to the Council.
- Liquidity Risk – the possibility that the Council might not have the cash available to make contracted payments on time.
- Market Risk – the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rate movements or equity prices.

While the Council maintains responsibility for the Treasury Strategy a contract is held with the Hampshire County Council Treasury Team to administer the day-to-day Treasury function on behalf of the Council.

Credit Risk - Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit of £10 million of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK Government). For unsecured investments in banks, building societies, registered providers and companies, a smaller limit of £5 million applies. The Council also sets limits on investments in certain sectors. No more than £40 million in total can be invested for a longer period than one year. These limits were set and implemented for 2020/21 on 24 February 2020.

The credit quality of £3.035 million of the Council's investments is enhanced by collateral held in the form of covered bonds collateralised by residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The tables below summarise the credit risk exposures, including accrued interest, of the Council's investment portfolio by credit rating and remaining time to maturity.

Counterparty	**Balance invested as at 31 March 2021**					
	Call Accounts	**Up to 1 month**	**> 1 month and < 6 months**	**> 6 months and < 12**	**> 12 months**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Banks	3,091	0	3,013	0	0	**6,104**
Money Market Funds	5,230	0	0	0	0	**5,230**
Local Authorities/Housing Associations	0	4,002	11,534	1,500	0	**17,036**
Bonds	0	0	0	0	3,039	**3,039**
Certificates of Deposit	0	3,000	0	0	0	**3,000**
Pooled Funds	2,004	0	0	0	13,488	**15,492**
Appletree Property Holdings	0	0	0	0	593	**593**
Total	**10,325**	**7,002**	**14,547**	**1,500**	**17,120**	**50,494**

Bond Ratings	Long-term		Short-term	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000
AAA	3,044	3,039	4,004	0
AA-	0	0	3,069	0
A+	0	0	4,011	0
A	0	0	1,000	9,104
A-	0	0	0	0
AAA Money Market Funds	0	0	15,270	5,230
Unrated local authorities	3,000	0	9,073	17,037
Total	**6,044**	**3,039**	**36,427**	**31,371**
Credit Rate Not Applicable	12,592	14,081	1,974	2,003
Total Investments	**18,636**	**17,120**	**38,401**	**33,374**

Credit risk is not applicable to share holdings and pooled funds when the Council has no contractual right to receive any sum of money.

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 131% (2020 365%) to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a ''D'' credit rating or equivalent.

At 31 March 2021, £4,000 (2020: £8,000) of loss allowances related to treasury investments.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets (Trade Debtors), based on experience of default, adjusted to reflect current market conditions. The Council also receives income and holds debts from Council Tax, Business Rates and for Housing Benefit overpayments. However, these are statutory debts and whilst the Council endeavours to collect this income, it cannot choose who its counterparties are in relation to these debts. Such statutory debts are not classified as financial instruments, and for this reason no reference to statutory debts is contained within the following tables.

Bond Ratings	Amount at 31 March 2021	Historical experience of default	Market Conditions at 31 March 2021	Estimated maximum exposure to default
	£000	%	%	£000
Trade Debtors	4,927	0.74%	0.00%	0
Total	**4,927**			**0**

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparties in relation to deposits.

NOTES TO THE ACCOUNTS

Trade Debtors

The Council does not generally allow credit for its trade debtors. The amount that is past its due date can be analysed by age as follows:

	31 March 2020	31 March 2021
	£000	£000
Less than three months	2,288	2,040
Three months to one year	1,394	829
More than one year	1,408	2,058
Total	**5,090**	**4,927**

The Council initiates a legal charge on property where tenants have amounts due on a Council mortgage used for the purchase of their Council dwelling. The total collateral at 31 March 2021 was £4,211.

Sundry Debtors bad debt provisions are based upon service areas for invoices that are still unpaid one year after they fall due, then adjusted for known changes and experience. Housing Rents bad debt provisions are based on percentages of the value of arrears for current and former tenants.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), also through cash flow management procedures required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

In the event of an unexpected cash requirement the Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer-term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments.

The maturity analysis of financial assets excluding accrued interest and sums due from customers is as follows:

	31 March 2020	31 March 2021
	£000	£000
Less than one year	38,313	33,320
Between one and two years	3,000	2,038
Between two and three years	2,041	1,002
Between three and four years	1,003	0
No fixed maturity date	12,592	14,081
Total	**56,949**	**50,441**

All trade and other payables (£4.927 million) are due to be paid in less than one year and are not shown in the table above.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it may need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the Council's borrowing that matures in any one financial year.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period as approved by Council in the Treasury Management Strategy:

	Approved maximum limits 2020/21		**Actual 31 March 2020**		**Actual 31 March 2021**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Less than one year	50	25	4.3	3	4.3	3
Between one and two years	51	25	4.3	3	4.3	3
Between two and five years	50	25	12.7	10	12.5	10
Between five and ten years	51	25	20.5	15	20.5	16
Between ten and twenty years	202	100	41.0	31	41.0	33
Between twenty and forty years	202	100	48.4	38	44.3	35
Over forty years	202	100	0.0	0	0.0	0
Total			**131.2**	**100**	**126.9**	**100**

The minimum limits have been set at zero and the maximum limit for more than 10 years at 100%. This is to facilitate the premature repayment and replacement of all PWLB loans with a longer maturity profile should this be required. The 25% maximum limit on the other periods of less than 10 years is to ensure an even maturity profile of short and medium term borrowing.

Market Risk

Interest rate risk – The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowing will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2021, all the £126.906 million (2020: £131.207million) of principal borrowed was at fixed rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	2019/20	2020/21
	£000	**£000**
Increase in interest receivable on variable rate investments	(408)	(300)
Decrease in fair value of investments held at FVPL	60	63
Impact on Surplus or Deficit on the Provision of Services	**(348)**	**(237)**
Decrease in fair value of investments held at FVOCI	0	0
Impact on Comprehensive Income and Expenditure Account	**(348)**	**(237)**
Decrease in fair value of loans and investments at amortised cost*	119	43
Decrease in fair value of fixed rate borrowing*	(17,851)	(17,064)

* No impact on Comprehensive Income and Expenditure

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk – The market prices of the Council’s fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council’s investments in pooled property funds are subject to the risk of falling commercial property prices. This risk is limited by the Council’s investment strategy. A 5% fall in commercial property prices at 31 March 2021 would result in a £0.37 million (2020: £0.37 million) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve.

The Council’s investments in pooled equity funds are subject to the risk of falling share prices. This risk is limited by the Council’s investment strategy. A 5% fall in share prices at 31 March 2021 would result in a £0.19 million (2020: £0.15 million) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve.

Foreign Exchange Risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Guarantor Risk – The Council acted as the guarantor to a 30 year loan held by the New Forest Enterprise Centre Ltd at Rushington. The last payment for this loan was made during 2020/21, therefore as at 31 March 2021 the Council was no longer guarantor and did not make a charge against its Comprehensive Income and Expenditure Account.

Fair value of Assets and Liabilities carried at Amortised Cost

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For money market funds and pooled funds the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans from the PWLB have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term investments, including trade payables and receivables is assumed to approximate to the carrying amount given the low and stable interest rate environment.

The fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

		31 March 2020		**31 March 2021**	
	Fair Value Level	**Balance Sheet £000**	**Fair value £000**	**Balance Sheet £000**	**Fair value £000**
Financial liabilities held at amortised cost:					
Loans from PWLB	2	(131,254)	(155,369)	(126,952)	(151,733)
Total		**(131,254)**	**(155,369)**	**(126,952)**	**(151,733)**
Total Financial Liabilities		**(131,254)**		**(126,952)**	
Recorded on balance sheet as:					
Short-term borrowing		(4,348)		(4,347)	
Long-term borrowing		(126,906)		(122,605)	
Total Financial Liabilities		**(131,254)**		**(126,952)**	

The fair value of short-term financial liabilities held at amortised cost, is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is lower than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

	Fair Value Level	31 March 2020 Balance Sheet £000	31 March 2020 Fair value £000	31 March 2021 Balance Sheet £000	31 March 2021 Fair value £000
Financial assets held at fair value:					
Money market funds	1	15,270	15,270	5,230	5,230
Bond, equity and multi-asset funds	1	6,874	6,874	8,022	8,022
Property Funds	2 - 31/3/20 1 - 31/3/21	7,485	7,485	7,470	7,470
Appletree Property Holdings	1	206	206	593	593
Financial assets held at amortised cost:					
Corporate, covered and government bonds	1	3,045	2,997	3,039	3,053
Long-term loans to local authorities, housing associations, harbour commissioner and Appletree Property Holdings	2	4,499	4,536	2,712	2,736
Total		**37,379**	**37,368**	**27,065**	**27,104**
Assets for which fair value is not disclosed*		26,429		31,625	
Total Financial Assets		**63,808**		**58,690**	
Recorded on balance sheet as:					
Long-term investments		18,636		17,120	
Long-term debtors		1,467		2,712	
Short-term investments		20,062		25,053	
Cash and cash equivalents		18,553		8,878	
Short-term trade debtors		5,090		4,927	
Total Financial Assets		**63,808**		**58,690**	

The fair value of financial assets held at amortised cost in aggregate is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Property funds totalling £7.470 million have been moved from level 2 to level 1 of the hierarchy for 2020/21 reflecting the resumption of an active market in these instruments.

The fair value of financial assets held at amortised cost in aggregate is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

The fair value of short-term financial assets, including trade receivables, is assumed to approximate to the carrying amount.

The fair value adjustment is a note to the accounts only; no accounting entry is required.

50. OFFICERS' REMUNERATION

The senior employees whose salary exceeded £50,000 per annum for 2020/21 are shown in the table below.

2020/21	Notes	Salary (including fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£
Chief Executive	a	121,371	0	121,371	22,332	143,703
Returning Officer	a	1,754	0	1,754	0	1,754
		123,125	0	123,125	22,332	145,457
Executive Head - Operations (Deputy Chief Executive)		88,960	0	88,960	16,369	105,329
Executive Head - Governance and Regulation		87,897	0	87,897	16,173	104,070
Executive Head - Resources		85,396	0	85,396	15,713	101,109
Chief Finance Officer (S151)		78,316	0	78,316	14,410	92,726
Chief Planning Officer		81,481	0	81,481	14,993	96,474
		545,175	**0**	**545,175**	**99,990**	**645,165**

The Employer's Pension Contributions were 18.40% for 2020/21 (16.10% for 2019/20). There were no Bonuses or Benefits in Kind paid in 2020/21 or 2019/20.

a) The Chief Executive undertook the Returning Officer role.

The figures for 2019/20 were:

2019/20	Notes	Salary (including fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£
Chief Executive	b	118,123	0	118,123	19,018	137,141
Returning Officer	b	34,012	0	34,012	0	34,012
		152,135	0	152,135	19,018	171,153
Executive Head - Operations (Deputy Chief Executive)		86,740	0	86,740	13,965	100,705
Executive Head - Governance and Regulation		85,545	0	85,545	13,773	99,318
Executive Head - Resources		80,740	0	80,740	12,999	93,739
Head of Finance (S151)		68,108	0	68,108	10,965	79,073
Chief Planning Officer		78,437	0	78,437	12,628	91,065
		551,705	**0**	**551,705**	**83,348**	**635,053**

b) The Chief Executive undertook the Returning Officer role.

The other officers whose remuneration, including termination benefit costs but excluding pension contributions, was above £50,000 were:

Remuneration Band	Number of Employees			
	2019/20		2020/21	
	Left During Year	Total	Left During Year	Total
£ 50,000 - £ 54,999	1	10	0	10
£ 55,000 - £ 59,999	0	9	0	3
£ 60,000 - £ 64,999	0	9	0	13
£ 65,000 - £ 69,999	0	1	0	3
£ 75,000 - £ 79,999	1	1	0	0
	2	30	0	29

51. TERMINATION BENEFITS

The Council terminated the contracts of 48 employees in 2020/21, incurring costs of £175,179 (19 employees, £389,351 in 2019/20). At the end of 2020/21 the redundancy provision made was £22,000 for future terminations. There had been no provision made as at 31 March 2020 for future terminations for which payments were incurred in 2020/21.

Exit Package Cost Band (including special payments)	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Total Cost of Exit Packages in Each Band £
2020/21				
£0 - £60,000	0	48	**48**	**175,179**
Total	**0**	**48**	**48**	**175,179**
2019/20				
£0 - £20,000	2	13	**15**	**59,889**
£20,001 - £40,000	1	1	**2**	**68,205**
£100,001 - £150,000	0	2	**2**	**261,257**
Total	**3**	**16**	**19**	**389,351**

52. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to limit another party's ability to bargain freely with the Council.

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in note 45.

The Council has a wholly owned group subsidiary consisting of an active holding company, that has two subsidiaries, one of which was active from 2019/20. Each has the same Board of Directors comprised solely of Council members and officers. As 31 March 2021 the Council had a long term debtor of £1.766 million and investment of £0.593 million.

During 2020/21 the Council provided office accommodation, financial services (including Internal Audit), human resources and geographical information system support to the New Forest National Park Authority. The total income received, which included these services, for 2020/21 was £355,000 (£290,000 for 2019/20). Income due at 31 March 2021 amounted to £45,000. The New Forest National Park Authority provided Ranger and Archaeology services to the Council which amounted to £54,000 (in 2019/20 Ecology and other miscellaneous services were also provided and totaled £69,000). £3,750 was owed to the New Forest National Park Authority at 31 March 2021.

Members of the Council have direct control over the Council's financing and operating policies. The total of members' allowances paid is shown in note 47. During 2020/21 no money was paid to companies in which members had an interest; in 2019/20 £180 was paid to a company in which a member had an interest. In 2020/21 and 2019/20, no payments were paid to organisations in which members had an interest, but on which there is no Council representative. One member is employed by the Council's bank; this contract was tendered and commenced in December 2014. There were no material transactions with any chief officers during the year.

53. GROUP ACCOUNTS

On the 12 February 2019, the Council incorporated 3 wholly owned companies for the purposes of property acquisition, letting and development:

- Appletree Property Holdings Limited
- Appletree Property Lettings Limited
- Appletree Residential Developments Limited

Group accounts have been prepared for the year ended 31 March 2021.

54. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

This note relates to capital expenditure that does not result in the Council owning tangible non-current assets. Such expenditure is required to be treated as revenue expenditure in accordance with the SORP, but under statute can be funded from capital resources.

	Charged to revenue 2020/21	**Capital resource funding 2020/21**
	£000	**£000**
General Fund		
- Housing Private Sector Disabled Adaptations/Home Repair Loans	546	546
- Leisure Schemes	173	173
- Transportation	172	172
- Open Space	107	107
	998	**998**

55. ASSETS HELD FOR SALE

There were no assets held for sale at 31 March 2021.

56. GOING CONCERN

These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future.

The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The Council recognises that the financial position for 2020/21 has been extremely atypical, but due to government support and the pro-active measures undertaken by the Council, the Council remains in a healthy financial position. The agreed balanced budget for 2021/22 takes into account continued new expenditure pressures and projected income losses, as does the Medium Term Financial Term. Throughout 2021, the Executive Management Team have reviewed the Council's Medium Term Financial plan through to 2025/26 and the Council has plans to address the forecast deficit over the period. The updated Treasury Management and Investment Strategies pick up on the forecast cashflow position, taking into account the Council's Capital Programme aspirations, covering the period beyond 2022/23. The Council will optimise the cash balances it has and has the option to prudentially borrow to support Capital Programme financing when required.

57. AUTHORISATION OF ACCOUNTS FOR ISSUE

This Statement of Accounts was authorised for issue on a date TBC by Cllr A O'Sullivan and Mr A Bethune.

HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE STATEMENT

2019/20			2020/21
£000		**Notes**	**£000**
	Income		
(26,200)	Dwelling rents		(26,360)
(769)	Non-dwelling rents		(711)
(658)	Charges for services and facilities		(654)
(375)	Contributions towards expenditure		(372)
(28,002)			**(28,097)**
	Expenditure		
4,804	Repairs and maintenance	3	5,024
6,535	Supervision and management		6,825
93	Rents, rates, taxes and other charges		90
16,729	Depreciation, impairment and revaluation of non-current assets	4	12,562
14	Debt Management Costs		12
171	Movement in the allowance for bad debts		108
28,346			**24,621**
344	**Net (Income) / Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement**		**(3,476)**
146	HRA services' share of Corporate and Democratic Core		146
490	**Net (Income) / Expenditure for HRA Services**		**(3,330)**
	HRA share of the Operating Income and Expenditure included in the whole authority Comprehensive Income and Expenditure Statement		
(1,320)	(Gain) / Loss on sale of HRA non-current assets		(1,008)
4,339	Interest payable and similar charges		4,245
(147)	Interest and investment income		(17)
405	Net interest on the net defined benefit liability / (asset)	5	441
(13)	Income and expenditure in relation to investment properties and changes in their fair value		(13)
(288)	Capital Grants and Contributions Receivable		(1,000)
3,466	**(Surplus) or Deficit for the year on HRA services**		**(682)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING REVENUE ACCOUNT ASSETS

a) Categorised by type of accommodation

31 March 2021	Houses	Bungalows	Flats	Total
Bedsits	0	0	189	189
1 Bedroom	6	362	837	1,205
2 Bedrooms	731	499	437	1,667
3 Bedrooms	1,939	18	6	1,963
4+ Bedrooms	143	1	0	144
Total	**2,819**	**880**	**1,469**	**5,168**

31 March 2020	Houses	Bungalows	Flats	Total
Bedsits	0	0	188	188
1 Bedroom	6	361	811	1,178
2 Bedrooms	728	498	424	1,650
3 Bedrooms	1,936	18	6	1,960
4+ Bedrooms	143	1	0	144
Total	**2,813**	**878**	**1,429**	**5,120**

b) Vacant Possession Value of Dwellings

The following analysis shows the value of dwellings within the HRA if they were sold on the open market with vacant possession.

	1 April 2019	1 April 2020
	£000	£000
Council Housing Assets		
Standard Dwellings	1,009,604	1,025,559
Restricted Housing	74,991	74,636
Special Housing	3,538	3,761
Garages	8,584	8,747
	1,096,717	**1,112,703**
Other Assets		
Investment Property	183	183
Land and Other Buildings	1,755	1,408
Community Centre	77	77
	2,015	**1,668**
	1,098,732	**1,114,371**

NOTES TO THE HOUSING REVENUE ACCOUNT

c) Gross Value and Number by Type of HRA Assets

This analysis shows the gross value and number by types of dwelling within the HRA. The Balance Sheet value differs from the open market value, reflecting the economic cost to government of providing council housing at less than open market rents.

	1 April 2020		31 March 2021	
	Number of Units	Value £000	Number of Units	Value £000
Council Housing Assets				
Standard Dwellings	4,551	338,435	4,583	345,708
Restricted Housing	540	24,630	540	25,029
Special Housing	29	3,761	45	5,633
Garages	1,788	8,747	1,788	8,441
	6,908	**375,573**	**6,956**	**384,811**
Other Assets				
Investment Property	1	183	1	183
Land and Other Buildings	15	1,408	15	1,143
Community Centre	1	77	1	0
	17	**1,668**	**17**	**1,326**
Total	**6,925**	**377,241**	**6,973**	**386,137**

d) Capital Expenditure

Housing Revenue Account capital expenditure was applied to:

	2019/20	2020/21
	£000	£000
Major Repairs	6,214	5,585
Environmental Enhancements	258	131
Acquisition and Development Programme	10,341	10,396
Disabled Adaptations	937	641
Total	**17,750**	**16,753**

e) Funding of HRA Capital Expenditure

	2019/20	2020/21
	£000	£000
Revenue Contributions	6,085	975
Major Repairs Reserve	8,321	8,704
Loan	0	4,100
Grant	247	974
Capital Receipts	3,097	2,000
Total	**17,750**	**16,753**

2. RENT ARREARS

		31 March 2020	31 March 2021
		£000	£000
Rent Arrears	- current tenants	622	583
	- former tenants	320	444
		942	**1,027**
Less provision for bad debts		(660)	(755)
Anticipated collectable arrears of rent		**282**	**272**

3. HOUSING REPAIRS

The following table shows expenditure for the different categories of work undertaken on housing repairs:

	2019/20	2020/21
	£000	£000
Cyclical Maintenance	1,310	1,321
Reactive Maintenance	3,494	3,703
Total	**4,804**	**5,024**

The Council also undertook £5.585 million of housing works, which were treated as capital expenditure. The main categories of work were central heating, windows and roof replacements and kitchen and bathroom modernisations.

4. HRA DEPRECIATION AND IMPAIRMENT OF FIXED ASSETS

a) Depreciation

The figures below show the depreciation charged to the Housing Revenue Account analysed over type of asset.

	2019/20	2020/21
	£000	£000
Standard Accommodation	7,670	8,030
Restricted Accommodation	570	584
Special Housing	81	89
	8,321	**8,703**
Other (included in Supervision and Management costs)	3	1
Total	**8,324**	**8,704**

b) Impairment

In 2020/21 there was a net increase in Housing asset values credited to the Housing Revenue Account of £8.442 million but these were offset by capital expenditure not enhancing value of £12.301 million to arrive at a net impairment of £3.859 million. This compares to a net impairment of £8.408 million in 2019/20. In 2020/21 other net Housing asset valuation increases credited to the Revaluation Reserve were £4.765 million (£3.608 million in 2019/20).

	2019/20	2020/21
	£000	**£000**
Housing Revenue Account/Capital Adjustment Account		
Revaluation Increases	(8,321)	(9,103)
Revaluation Decreases	4,823	661
Net Revaluation (Increases)/Decreases	(3,498)	(8,442)
Capital Expenditure not enhancing asset value	11,906	12,301
Total Housing Revenue Account Impairment	**8,408**	**3,859**
Revaluation Reserve		
Revaluation Increases	(3,691)	(5,071)
Revaluation Decreases	83	306
Total Revaluation Reserve	**(3,608)**	**(4,765)**
Total HRA Impairments/Revaluations	**4,800**	**(906)**

5. HRA CONTRIBUTION TO/FROM THE PENSION RESERVE

The Council has applied IAS19 to the Housing Revenue Account. This means that service expenditure reflects the appropriate allocation of retirement costs earned in the year rather than actual employer's contributions made. An appropriation has been made from the Pensions Reserve to negate the impact on the Housing Revenue Account balance of all items. The following transactions have been made in the HRA:

	2019/20	2020/21
	£000	**£000**
Net Cost of Services:		
Current service cost	1,476	1,588
Net Operating Expenditure:		
Net Interest Expense	405	441
Amounts to be met from Government Grants and Local Taxation		
Movement on pensions reserve	(909)	(1,172)
Actual amount charged against dwelling rents for pensions in the year:		
Employers' contributions payable to scheme	**972**	**857**

6. MAJOR REPAIRS RESERVE

The following table shows the movements on the Major Repairs Reserve.

	2019/20	2020/21
	£000	£000
Balance 1 April	**0**	**0**
Transferred to Reserve	8,321	8,704
Debits in respect of capital expenditure on land, houses and other property	(8,321)	(8,704)
Balance 31 March	**0**	**0**

7. CAPITAL RECEIPTS

The following table shows the movements on Capital Receipts. Total Capital Receipts in respect of the Housing Revenue Account are shown after adjustments for administration and other costs.

	2019/20	2020/21
	£000	£000
Sale of Land	40	0
Sale of Council Houses	3,083	2,094
Discount Repaid	38	18
Disabled Facilities Grants	0	5
Rent to Mortgage	0	29
Total Capital Receipts	**3,161**	**2,146**
Payments due to MHCLG (Local Government Act 2003)	(574)	(662)
Usable Capital Receipts	**2,587**	**1,484**

COLLECTION FUND

The Collection Fund is an agent's statement that shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements are shown for council tax and non-domestic rates due to the complexity of non-domestic rates transactions.

COLLECTION FUND – COUNCIL TAX

The Council collects council tax for its own spending needs and on behalf of Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire and Isle of Wight Fire and Rescue Service and local town and parish councils.

2019/20			2020/21	
£000	£000		£000	£000
		Income		
	(127,318)	Income from Council Tax		(131,839)
		Transfers to / (from) General Fund:		
0		Hardship Relief	(699)	
(73)	(73)	Family Annex Relief	(71)	(770)
	(127,391)	**Total Income**		**(132,609)**
		Expenditure		
		Precepts:		
87,910		Hampshire County Council	91,960	
14,319		Police and Crime Commissioner for Hampshire	15,118	
4,812		Hampshire and Isle of Wight Fire And Rescue Service	4,937	
18,428		New Forest District Council (including	19,271	
	125,469	town and parish council requirements)		131,286
		Bad and Doubtful Debts		
177		Write-offs	261	
168	345	Increase / (decrease) in provisions	546	807
		Contributions:		
	1,494	Previous year's estimated council tax surplus		1,485
	127,308	**Total Expenditure**		**133,578**
	(83)	**Movement on fund balance**		**969**
	(1,452)	(Surplus) / Deficit at 1 April		(1,535)
	(83)	Movement on fund balance for year		969
	(1,535)	**(Surplus) / Deficit at 31 March**		**(566)**

COLLECTION FUND

COLLECTION FUND – BUSINESS RATES

The Council collects business rates for its own spending needs and on behalf of the Government, Hampshire County Council and Hampshire and Isle of Wight Fire and Rescue Service.

2019/20			2020/21	
£000	£000		£000	£000
		Income		
		Income collectable from Business Ratepayers		
	(68,635)	Current System		(40,348)
	1,015	Transitional Protection Payments		316
	(67,620)	**Total Income**		**(40,032)**
		Expenditure		
33,097		Payments to DCLG - Business Rates Retention	34,462	
26,478		New Forest District Council	27,569	
5,958		Hampshire County Council	6,203	
662		Hampshire and Isle of Wight Fire And Rescue Service	689	
276		Costs of Collection	275	
10		NFDC - Renewable Energy Schemes	11	
	66,481			69,209
		Bad and Doubtful Debts		
245		Write-offs	168	
28		Increase / (decrease) in provisions	391	
(404)		Appeals Provision	(2,330)	
	(131)			(1,771)
		Contributions:		
	415	Previous year's estimated business rates deficit		2,229
	66,765	**Total Expenditure**		**69,667**
	(855)	**Movement on fund balance**		**29,635**
	(387)	(Surplus) / Deficit at 1 April		(1,242)
	(855)	Movement on fund balance for year		29,635
	(1,242)	**(Surplus) / Deficit at 31 March**		**28,393**

The significant deficit on the Collection Fund for the 2020/21 year is reflective of the business rate reliefs awarded by the Government, funded by new S31 grant, as a measure to help provide financial assistance to certain rate paying businesses significantly impacted by reduced trade as a result of the pandemic. Further information is included within section 9 of the Narrative Statement.

NOTES TO THE COLLECTION FUND

1. GENERAL

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year distributed between the billing authority and major precepting authorities in proportion to their precepts in the year the surplus or deficit occurred.

Any surplus or deficit in respect of Business Rates at the end of the year is distributed in accordance with the percentage allocations set out in note 5.

2. CALCULATION OF THE TAX BASE

The Council Tax charge for the year is calculated by dividing the Council's budget requirement by the Council's tax base.

The tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

New Forest District Council's tax base for tax setting purposes was calculated as follows:

Band	Estimated number of Taxable Properties *	Ratio	Number of Band D Equivalent Properties
Disabled A	25.50	5/9	14.30
A	5,749.23	6/9	3,833.00
B	10,611.09	7/9	8,253.30
C	16,358.18	8/9	14,540.80
D	17,616.88	9/9	17,617.10
E	12,439.48	11/9	15,204.00
F	6,533.49	13/9	9,437.50
G	4,266.32	15/9	7,110.70
H	550.91	18/9	1,101.90
Total	74,151.08		77,112.60
Less: Adjustment for collection rates			862.20
Less: Council Tax Reduction Scheme			4,757.50
Council Tax Base			71,492.90

* after adjusting for the effects of discounts and anticipated changes during the year for new properties, demolitions, disabled persons relief, exempt properties and successful appeals against valuations.

3. ACCOUNTING FOR THE COLLECTION FUND BALANCE – COUNCIL TAX

The opening balance on the Collection Fund for 2020/21 was a £1.535 million surplus. The surplus at the end of the year is split between Hampshire County Council, New Forest District Council, Police and Crime Commissioner for Hampshire and Hampshire and Isle of Wight Fire and Rescue Service.

In the Balance Sheet at 31 March 2021, the Council included the £0.566 million surplus on a disaggregated basis as a creditor of £0.491 million and a £75,000 attributable surplus within the Collection Fund Adjustment Account balance.

NOTES TO THE COLLECTION FUND

4. PRECEPTS AND DEMANDS ON THE COLLECTION FUND – COUNCIL TAX

2019/20				2020/21		
Precept £000	Share of Surplus £000	Total £000		Precept £000	Share of Surplus £000	Total £000
87,910	1,075	88,985	Hampshire County Council	91,960	400	92,360
14,319	175	14,494	Police and Crime Commissioner for Hampshire	15,118	72	15,190
4,812	59	4,871	Hampshire and Isle of Wight Fire and Rescue Service	4,937	19	4,956
18,428	226	18,654	New Forest District Council (including town and parish council requirements)	19,271	75	19,346
125,469	**1,535**	**127,004**		**131,286**	**566**	**131,852**

5. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate determined by the Government. The total amount, less certain reliefs and other reductions, is paid into the Collection Fund before being distributed to Central Government (50%), New Forest District Council (40%), Hampshire County Council (9%) and Hampshire and Isle of Wight Fire and Rescue Service (1%).

The total non-domestic rateable value at 31 March 2021 was £170.555 million. The national non-domestic multiplier was 51.2p. This gave a potential business rate yield of £87.324 million. After allowing for items such as rateable value amendments, empty properties, small property reductions, additional reliefs as a result of the pandemic and transitional and charitable reliefs, the net amount of business rates collectable was £40.348 million.

6. ACCOUNTING FOR THE COLLECTION FUND BALANCE – BUSINESS RATES

The 2020/21 year end deficit balance on the Collection Fund was £28.393 million. The Council's share is a deficit of £11.357 million and Central Government, Hampshire County Council and Hampshire and Isle of Wight Fire and Rescue Service share a deficit balance of £17.036 million. Within the balance sheet the Council's share is shown within the Collection Fund Adjustment Account balance and the partners' share is netted off within debtors. The funding (additional S31 grant) to cover the Council's share of the deficit is held within Earmarked Reserves.

NOTES TO THE COLLECTION FUND

7. DEMANDS ON THE COLLECTION FUND – BUSINESS RATES

2019/20				2020/21		
Demand	**Share of Surplus / (Deficit)**	**Total**		**Demand**	**Share of Surplus / (Deficit)**	**Total**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
33,097	621	33,718	Central Government	34,462	(14,197)	20,265
5,958	112	6,070	Hampshire County Council	6,203	(2,555)	3,648
662	12	674	Hampshire and Isle of Wight Fire and Rescue Service	689	(284)	405
26,478	497	26,975	New Forest District Council	27,569	(11,357)	16,212
66,195	**1,242**	**67,437**		**68,923**	**(28,393)**	**40,530**

NEW FOREST DISTRICT COUNCIL
SUPPLEMENTARY STATEMENTS
GROUP ACCOUNTS

The group accounts contain core financial statements similar to those included in the Council's single entity statements but which represent the consolidated position of the group.

The group accounts are presented in the following pages and include:

Notes to the group accounts:

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This account summarises the resources generated and consumed in providing services and managing the Group during the year.

2019/20				2020/21		
Gross Expend £000	Gross Income £000	Net Expend £000		Gross Expend £000	Gross Income £000	Net Expend £000
2,566	(562)	2,004	Community Affairs	2,377	(1,045)	1,332
12,996	(3,290)	9,706	Environment and Regulatory Services	15,540	(3,800)	11,740
40,250	(34,327)	5,923	Finance, Investment and Corporate Services	39,225	(34,826)	4,399
6,901	(4,573)	2,328	Housing Services	6,685	(4,651)	2,034
45	0	45	Leader and Corporate Affairs	174	0	174
9,894	(7,253)	2,641	Leisure and Wellbeing	8,552	(2,210)	6,342
837	(614)	223	Economic Development	360	(323)	37
7,489	(5,457)	2,032	Planning and Infrastructure	7,323	(4,693)	2,630
80,978	(56,076)	24,902	General Fund	80,236	(51,548)	28,688
28,492	(28,002)	490	Housing Revenue Account	24,767	(28,097)	(3,330)
109,470	**(84,078)**	**25,392**	**Cost of Services**	**105,003**	**(79,645)**	**25,358**
			Other Operating Expenditure			
6,106			Town and Parish Council Precepts	6,519		
574			Payments to the Government Housing Capital Receipts Pool	662		
	(1,365)		(Gains)/Losses on the disposal of Non-Current Assets		(1,072)	
358	(1,192)		VAT Assessment / (Refund)	0	0	
		4,481	**Total Other Operating Expenditure**			**6,109**
			Financing and Investment Income and Expenditure			
			Interest Payable and Similar Charges:			
26			- General Fund	19		
4,339			- HRA	4,245		
	(1)		Expected Credit (Gain)/Loss on Investments	3		
1,419	(27)		Changes in the fair value of Investments	45	(1,197)	
	(1,339)		Other Investment Income		(806)	
2,164			Net interest on the net defined benefit liability/(asset)	2,242		
	(109)		Income, expenditure and changes in the fair value of Investment Properties	7		
		6,472	**Total Financing and Investment Income and Expenditure**			**4,558**
			Taxation and Non-Specific Grant Income			
	(18,660)		Council Tax Income (incl. Parish precepts)		(19,339)	
	(5,514)		Non-Domestic Rates Income and Expenditure		(5,942)	
	(526)		Unringfenced Government Grants		(6,816)	
	(2,407)		Capital Grants and Contributions		(3,714)	
		(27,107)	**Total Taxation and Non-Specific Grant Income**			**(35,811)**
124,456	(115,218)	**9,238**	**(Surplus)/Deficit on the Provision of Services**	118,745	(118,531)	**214**
	(3,577)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets		(4,869)	
1,661			Re-measurement of the defined benefit liability/(asset)	11,276		
		(1,916)	**Other Comprehensive Income and Expenditure**			**6,407**
		7,322	**Total Comprehensive Income and Expenditure**			**6,621**

GROUP MOVEMENT IN RESERVES STATEMENT

This schedule shows the movement in the year of the Council's single entity usable and unusable reserves as well as the Council's share of the group reserves.

	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Council's share of the Reserves of Subsidiaries	TOTAL RESERVES
	£000	£000	£000	£000	£000
Balance at 31 March 2019	**(54,994)**	**(225,504)**	**(280,498)**	**0**	**(280,498)**
Movement in reserves during 2019/20					
(Surplus)/deficit on the provision of services	**9,238**	**0**	**9,238**	**0**	**9,238**
Other comprehensive income and expenditure	**0**	**(1,916)**	**(1,916)**	**0**	**(1,916)**
Total Comprehensive Income and Expenditure	**9,238**	**(1,916)**	**7,322**	**0**	**7,322**
Adjustments between accounting basis and funding basis under regulations	**(1,932)**	1,932	**0**	**0**	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**7,306**	**16**	**7,322**	**0**	**7,322**
Transfers to/(from) earmarked reserves	**0**	**0**	**0**	**0**	**0**
(Increase) / Decrease in Year	**7,306**	**16**	**7,322**	**0**	**7,322**
Balance at 31 March 2020	**(47,688)**	**(225,488)**	**(273,176)**	**0**	**(273,176)**
Movement in reserves during 2020/21					
(Surplus)/deficit on the provision of services	**(96)**	**0**	**(96)**	**310**	**214**
Other comprehensive income and expenditure	**0**	**6,413**	**6,413**	**(6)**	**6,407**
Total Comprehensive Income and Expenditure	**(96)**	**6,413**	**6,317**	**304**	**6,621**
Adjustments between accounting basis and funding basis under regulations	**(14,222)**	14,222	**0**	**0**	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**(14,318)**	**20,635**	**6,317**	**304**	**6,621**
Transfers to/(from) earmarked reserves	**0**	**0**	**0**	**0**	**0**
(Increase) / Decrease in Year	**(14,318)**	**20,635**	**6,317**	**304**	**6,621**
Balance at 31 March 2021	**(62,006)**	**(204,853)**	**(266,859)**	**304**	**(266,555)**

GROUP BALANCE SHEET

This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group.

2019/20			2020/21	
£000	£000		£000	£000
		Long-Term Assets		
		Property, Plant and Equipment:		
375,573		Council Dwellings	384,811	
68,506		Other Land and Buildings	69,638	
3,236		Vehicles, Plant and Equipment	2,437	
3,386		Infrastructure	3,064	
537		Community Assets	537	
4,312	455,550	Assets Under Construction	3,286	463,773
	9,454	Investment Property		12,384
	18,636	Long-Term Investments		16,527
	1,467	Long-Term Debtors		946
	485,107	**Total Long-Term Assets**		493,630
		Current Assets		
20,062		Short-Term Investments	25,053	
285		Inventories	267	
11,662		Short-Term Debtors	17,733	
(2,667)		Bad Debt Provision	(2,987)	
18,553		Cash and Cash Equivalents	8,899	
	47,895	**Total Current Assets**		48,965
	533,002	**Total Assets**		**542,595**
		Current Liabilities		
(4,348)		Short-Term Borrowing	(4,346)	
(24,055)		Short-Term Creditors	(27,439)	
	(28,403)	**Total Current Liabilities**		(31,785)
		Long-Term Liabilities		
(126,906)		Long-Term Borrowing	(122,605)	
(3,878)		Provisions	(2,968)	
(544)		Capital Grants - Receipts in Advance	(1,401)	
(625)		Developers' Contributions - Receipts in Advance	(577)	
(99,470)		Net Pensions Liability	(116,704)	
	(231,423)	**Total Long-Term Liabilities**		(244,255)
	273,176	**Net Assets**		**266,555**
		Usable Reserves		
3,000		General Fund Balance	3,000	
19,314		Earmarked Reserves	31,686	
1,000		Housing Revenue Account Balance	1,000	
10,297		Capital Programme Reserve	12,094	
4,618		Capital Receipts Reserve	3,571	
5,212		Community Infrastructure Levy Unapplied	5,998	
4,247	47,688	Developers' Contributions Unapplied	4,608	61,957
		Unusable Reserves		
41,864		Revaluation Reserve	46,601	
283,315		Capital Adjustment Account	286,203	
(1,219)		Financial Instruments Revaluation Reserve	(70)	
558		Deferred Capital Receipts Reserve	444	
(99,470)		Pensions Reserve	(116,704)	
722		Collection Fund Adjustment Account	(11,283)	
(282)	225,488	Accumulating Absences Adjustment Account	(593)	204,598
	273,176	**Total Reserves**		**266,555**

GROUP CASH FLOW STATEMENT

The Cash Flow statement shows the changes in cash and cash equivalents in the group during the reporting period. The statement shows how the Group generates and uses cash equivalents by classifying cash flows as operating, investing and financing activities.

2019/20		2020/21
£000		**£000**
9,238	Net (surplus) or deficit on the provision of services	214
(28,858)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(22,432)
3,169	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	2,165
(16,451)	Net cash flows from Operating Activities	(20,053)
1,735	Investing Activities	20,378
2,037	Financing Activities	9,329
(12,679)	Net (increase) or decrease in cash and cash equivalents	9,654
(5,874)	Cash and cash equivalents at the beginning of the reporting period	(18,553)
(18,553)	**Cash and cash equivalents at the end of the reporting period**	(8,899)

NOTES TO THE GROUP ACCOUNTS

1. OVERVIEW

New Forest District Council chooses to deliver its services through a variety of delivery models, either under ultimate control or in partnership with other organisations. The financial statements consider the New Forest District Council as a single entity, thus any business interests in other organisations are reflected in terms of the level of the Council's investment and not their financial performance, year-end balances and exposure to risk. In order to reflect a full picture of the Council's financial activities and business relationships, group financial statements are produced to reflect the extent of New Forest District Council's involvement in group undertakings.

The Group

The relevant accounting standards have been applied in determining how the organisations are included in the group boundary. The extent of the Council's interest and control over the entity was considered as was the materiality of the financial impact on the Council's group accounts and the transparency of less material entities to allow the reader to understand the Group's consolidated position. Following this assessment the following has been identified as being within the Council's group for financial reporting purposes.

- Subsidiaries – where the Council either wholly or majority control an entity. Therefore in the 2020/21 group accounts the Appletree Property Holdings Group Limited is included.

The Council does not have business interests in any other organisations that are not included in the group accounts.

2. ACCOUNTING POLICIES

The group accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and those International Financial Reporting Standards where CIPFA had provided guidance notes.

The accounting policies used in preparing the group accounts reflect those used by New Forest District Council in its single entity financial statements, these can be found in Note 1 of the New Forest District Council financial statements. In order to ensure consistency of accounting treatment and the alignment of policies across the group the following policies have been adopted:

Consolidation of Subsidiaries
Subsidiaries have been consolidated using the acquisition accounting basis. This is the full, line by line consolidation of financial transactions and balances of the Council and its subsidiary companies. To avoid overstating balances within the group financial statements all transactions and balances between the Council and group companies have been eliminated.

Alignment of accounting framework and policies
Where the accounting framework used by group companies differs from that of the council, FRS102 rather than IAS19, including the accounting policies and the impact of such differences would have a material impact on the group financial statements then the relevant balances from the group companies will be adjusted to bring the accounting treatment in line with that applied by the council.

Unrealised profits from intra-group transactions:
Any unrealised profit reflected in the carrying amount of property, plant and equipment and inventory arising from trading between the council and its group companies will be eliminated to avoid the double counting of gains.

Company losses Accounting Treatment:
Appletree Property Holdings Limited included in the consolidation has reported losses in the year. The losses have been reported in accordance with IAS28 to the extent that all the losses have been recognised in the group accounts. These annual losses are reflected in the Group Comprehensive Income and Expenditure Account.

3. GROUP PROPERTY, PLANT AND EQUIPMENT

Valuation of Property, Plant and Equipment

The Council subsidiary operates an annual programme of property revaluations; in 2020/21 this work was carried out by the Council's valuer P. Marston, MRICS, Registered Valuer.

Movement on Property, Plant and Equipment Assets

Purchases and disposals during the year were as follows:

Movements in 2020/21:	Council Property, Plant and Equipment	Council Share of Subsidiary Property, Plant and Equipment	Total Group Property, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**
At 1 April 2020	**479,748**	**0**	**479,748**
Additions	**19,188**	**2,071**	**21,259**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	**4,685**	**6**	**4,691**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	**(849)**	**(183)**	**(1,032)**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	**(14,529)**	**(98)**	**(14,627)**
Derecognition - disposals	**(1,402)**	**0**	**(1,402)**
Other movements in cost or valuation	**0**	**0**	**0**
At 31 March 2021	**486,841**	**1,796**	**488,637**
Accumulated Depreciation and Impairment			
At 1 April 2020	**(24,198)**	**0**	**(24,198)**
Depreciation charge	**(10,111)**	**0**	**(10,111)**
Depreciation written out to the Revaluation Reserve	**178**	**0**	**178**
Depreciation written out to the Surplus / Deficit on the Provision of Services	**8,958**	**0**	**8,958**
Derecognition - disposals	**309**	**0**	**309**
At 31 March 2021	**(24,864)**	**0**	**(24,864)**

Net Book Value			
at 31 March 2021	**461,977**	**1,796**	**463,773**
at 31 March 2020	**455,550**	**0**	**467,021**

NOTES TO THE GROUP ACCOUNTS

Comparative Movements in 2019/20:	Council Property, Plant and Equipment	Council's Share of Subsidiary Property, Plant and Equipment	Total Group Property, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**
At 1 April 2019	**476,952**	**0**	**476,952**
Additions	**19,928**	**0**	**19,928**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	**3,576**	**0**	**3,576**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	**(5,961)**	**0**	**(5,961)**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	**(12,606)**	**0**	**(12,606)**
Derecognition - disposals	**(2,141)**	**0**	**(2,141)**
Other movements in cost or valuation	**0**	**0**	**0**
At 31 March 2020	**479,748**	**0**	**479,748**
Accumulated Depreciation and Impairment			
At 1 April 2019	**(22,886)**	**0**	**(22,886)**
Depreciation charge	**(9,983)**	**0**	**(9,983)**
Depreciation written out to the Surplus / Deficit on the Provision of Services	**8,334**	**0**	**8,334**
Derecognition - disposals	**337**	**0**	**337**
At 31 March 2020	**(24,198)**	**0**	**(24,198)**

Net Book Value			
at 31 March 2020	**455,550**	**0**	**455,550**
at 31 March 2019	**454,066**	**0**	**468,303**

NOTES TO THE GROUP ACCOUNTS

4. GROUP ACCOUNTS LONG TERM DEBTORS

Group accounts were prepared for the first time for the year ending 31 March 2021.

31 March 2020		31 March 2021
£000		£000
8	Car Loans	5
602	Lymington Harbour Commissioners - Principal	502
553	Rent to Mortgages House Purchases	439
304	Appletree Property Holdings	0
1,467	**Total**	**946**

GLOSSARY OF TERMS

Budget

The Council's plans set out in financial terms. Both revenue and capital budgets are prepared and are used to control and monitor expenditure and performance.

Capital Expenditure

Expenditure on the purchase of assets, which will be of use or benefit to the Council/Community for longer than one year.

Capital Financing

The raising of money to pay for capital expenditure.

Capital Receipts

Proceeds from the sale of long-term assets e.g. land or buildings.

Direct Revenue Financing

Financing of capital expenditure by a direct charge to a revenue account. This method of finance avoids borrowing.

General Fund

The section of the Council's accounts that covers services paid for by the Council Tax, Non-Domestic Rate and Revenue Support Grant.

Housing Revenue Account

The account which records the income and expenditure relating to the provision of council housing.

Impairment

At the end of each year each asset is reviewed. Impairment is accounted for if there is evidence that there has been a reduction in value.

International Financial Reporting Standards (IFRS)

Accounting practices recommended by the major accounting bodies.

Lease

A method of financing capital expenditure where a rental charge is paid for the use of an asset over a specified period of time. This rental covers a proportion of the capital cost of the asset, together with a return on the finance provided by the leasing company.

Long-term Assets

An asset that has a life of more than one year.

GLOSSARY OF TERMS

Long-term Investments

Loans that the Council has given that are repayable after 364 days of the start of the financial year.

PWLB Debt

Borrowing that is raised from the Public Works Loan Board, a UK Central Government organisation.

Revenue Support Grant (RSG)

Grant paid by the Government to local authorities to help them finance the cost of their services. The system is designed so that if all local authorities spend at the level determined by the Government, the council tax would be the same across the country.

Revenue Expenditure/Income

The costs or income relating to the day-to-day provision of services.

Short-term Investments

Investments that the Council has made that are repayable within 364 days from the date of the original investment.

Short-term Loans

Loans that the Council has raised that are repayable within 364 days of the start of the financial year.

Support Services

The costs of professional, administrative and technical support given to the departments that provides services to the public.

Agenda Item 9

AUDIT COMMITTEE – 28/01/22

MEASURES TO IMPROVE LOCAL AUDIT DELAYS

1. Purpose of the report

1.1 On 16 December, the Department for Levelling Up, Housing and Communities published a report titled 'Measures to improve local audit delays'. The report is attached at appendix 1 and contains information that is of relevance to the members of the Audit Committee.

2. Recommendations

2.1 That the Audit Committee note the contents of the appended report.

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APPENDIX 1

Measures to improve local audit delays

From: **Department for Levelling Up, Housing and Communities**
Published: 16 December 2021

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. These measures will help to ensure that audit provides transparency and accountability in local councils.

Context

The government's priorities for local audit are a strong and coordinated quality framework, a buoyant local audit market, and improved transparency and governance.

Local government audit plays a vital role in providing local authorities with accurate and reliable financial information to plan and manage their services and finances effectively. The timely completion of local audit also ensures local authority financial arrangements, including whether value for money is being achieved, are transparent to the taxpayer, and facilitates assurance for the public sector more broadly through the audit of the Whole of Government Accounts.

We remain committed to the principles of a locally-led audit regime, as embodied in the Local Audit and Accountability Act 2014 and have further demonstrated our commitment to this vision for the local audit market through our response to Sir Tony Redmond's independent review of local authority financial reporting and external audit. The government is also grateful for the support shown by stakeholders across the sector, who have been working with us to implement the Redmond Review recommendations.

However, challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony. In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.

As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.

In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.

In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector.

The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. We laid new regulations on 21 October to provide greater flexibility to the appointing person through, for example, extending the deadline for setting fee scales so that they can reflect the most recent market conditions, and streamlining the fee variation process under certain circumstances. We are also providing £15 million additional funding to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements. In addition, we have extended the statutory deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21 for 2 years.

We recently consulted on proposals for the Audit Reporting and Governance Authority (ARGA), the new body being established to replace the Financial Reporting Council (FRC), to take on a systems leader role for local audit. Ensuring there is a strong system leader will help to ensure broader alignment across the system to respond to challenges within the market. However, while these changes will be beneficial in the longer-term, it is clear that we need to go further in the short-term to address the stark deterioration in timeliness.

The government emphasised this point at a recent discussion of the Local Audit Liaison Committee on 21 September, where it was noted by members that, while in the past, ensuring the quality of the final audit had been the priority, timeliness had worsened to the extent it had become a quality issue.

This paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market.

Section 1: Measures relating to audit firms and timely completion of audit

Summary of commitments

- FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP
- Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants

All stakeholders across the local audit market have a key role to play in helping to get timeliness back on track. That is why DLUHC has been engaging with audit firms since the summer to understand the issues that are affecting the stability of the market, including timeliness.

Most recently, the Minister of State for Levelling Up, Housing and Communities, Kemi Badenoch MP, met with audit firms to explore market issues and to emphasise the need for firms to work with government to get the timely completion of local audit back on track as quickly as possible. The FRC have also held discussions with audit firms to highlight the importance of clearing the backlog of delayed audits, and highlighted the issue when publishing its most recent Audit Quality Inspection.

Training and qualifications

Through our engagement with audit firms, we have heard that the capacity of firms is being limited by a lack of qualified, experienced auditors, a finding which was also highlighted in the NAO's report.

In response to Sir Tony Redmond's recommendations, we sought views in our technical consultation this summer on proposals for improving training and qualification support, and on the FRC's review of the Key Audit Partner (KAP) guidance. These proposals have been positively received by audit firms, as well as other respondents to the consultation, and we will respond to this as part of our formal consultation response in the new year.

In the interim, the capacity and capability working group is continuing to develop the proposals. This includes proposed updates to the KAP guidance, allowing new routes for experienced Registered Individuals (RI) to become KAPs and allowing the local audit Recognised Supervisory Bodies greater discretion in determining the suitability of the experience gained by KAP applicants without a reduction in audit quality.

The FRC is planning to consult on its proposed KAP guidance updates in early 2022, seek approval through its internal governance procedures and will aim to publish the guidance in spring 2022.

CIPFA is progressing development of the new local audit training Diploma in local government financial reporting and management aimed at senior auditors and other levels of auditor. It will be designed to meet the technical training needs of experienced RIs, who have not met the full existing criteria for local audit experience. It will also meet the immediate recommendations from the Redmond Review, and in particular, support firms who may bid in the next opt-in procurement for local audit contracts managed by PSAA, given the desire to attract new entrants to the market who do not currently hold local audit contracts.

CIPFA is working with other stakeholders to continue to refine their proposal for a new technical advisory service in consultation with the industry. This service is expected to support on topics unique to the local government sector providing the local audit system with:

- specialist technical advisory service to local auditors responding to difficult or complex audit queries
- advice and guidance to auditors on how to respond to elector’s objections
- guidance on how and when to produce a public interest report
- advice on performance audit issues (for VfM reporting) and
- to address difficult, technical issues or audit judgements including judgements over how to respond to objectors or whether an issue identified meets the threshold for issuing a public interest report

This may be run as a digital platform utilising experienced personnel from the sector. We expect to provide further information on this in the New Year, subject to finalising the details with relevant partners, and considering the business case and appetite from firms, given it would be sustained by an audit firm-funded approach in the longer-term.

Section 2: Measures relating to local bodies and quality of accounts preparation

Summary of commitments

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.

- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory
- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs

As outlined in the sections above, although many local authorities prepare their accounts to a high standard within the statutory deadline, and generally do meet the deadline for providing draft accounts, there are instances where issues with the preparation and quality of local authority accounts contribute to delays in the auditor’s opinion being issued.

We recognised that implementing the recommendations from the Redmond Review, and the new value for money elements of the Code of Audit Practice, would likely place greater pressure on local authority finance functions, especially in light of increased audit fees, and therefore are providing with £15 million of additional funding in the 2021/22 financial year to support local bodies to meet these new burdens.

On 26 November, Catherine Frances, Director General for Local Government, wrote to all local authority Section 151 Officers to emphasise the need for local bodies to work with audit firms as part of a system-wide response to clear the backlog of delayed audits.

Audit committees

The government is committed to supporting the improvement of audit committee arrangements and delivery of good practice in response to Sir Tony’s recommendations through the development and production of strengthened guidance on audit committees. CIPFA is leading this work, with support and input from the LGA, PSAA, and others, and revised guidance will be published in spring 2022.

This guidance will emphasise the important role that audit committees have in ensuring that accounts are prepared to a high standard and that issues identified by audit firms are resolved swiftly. It will also include guidance on the appointment of independent members, who can often play a key part in ensuring the apolitical role of the audit committee. The government has recently consulted on whether the guidance, or the principle of audit committees themselves, should be made a statutory requirement, and will be setting out a response in due course, including the case for making independent members a statutory requirement.

The guidance will also allow content to be targeted at the different audiences given the role that audit committee members, those guiding and supporting the committee, and local body leadership teams all have in ensuring the processes work effectively.

Further, to strengthen the capability and skills of audit committee members, the Local Government Association, with support from DLUHC, will establish a number of targeted forums.

Ongoing financial support

The government will be going even further to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.

As well as the £15 million provided for 2021/22, the government can confirm today it is providing local bodies with £15 million additional funding per annum for the next 3 years – totalling £45 million over the Spending Review period. This will provide local bodies with the certainty that they will be supported to implement the changes needed to respond to new auditing requirements and Redmond's recommendations.

Section 3: Proposed measures relating to accounting and audit requirements

Summary of commitments

- NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements
- CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards
- The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22
- Delaying implementation of standardised statements and associated audit requirements

It is important that local authority accounts and audits are focused on areas of greatest risk and concern to citizens. These should be transparent and accessible, while also being mindful of the need to ensure that they comply with International Financial Reporting Standards and Whole of Government Accounts requirements.

In our spring report, we highlighted that, given the fundamental capacity issues facing the audit sector, we wanted to work with partners to consider whether there were opportunities to reduce some of the accounting and audit requirements where these relate to areas of less risk to local bodies, as well as other options to assist timely delivery of audits.

Since then, we have been working with members of the liaison committee, audit firms and local bodies to consider this question, and have agreed a number of measures that should help ameliorate capacity pressures, and facilitate more timely completion of audited accounts.

Code of Audit Practice and Auditor Guidance Notes. To assist with the delivery of 20/21 audits, the NAO and FRC made amendments to guidance, including Auditor Guidance Notes 03 and 07, as well as the guidance note on going concern. The changes which included altering the timing of elements of the VFM arrangements work, have allowed more focus on fully delivering opinions on financial statements.

Given the ongoing nature of delays, the NAO have proposed continuing these arrangements for as long as they are beneficial, including for at least 21/22 audits.

Changes to the Accounting Code. Local authority accounts are complex in that they are required to comply with both IFRS and statutory accounting principles. This effectively entails presenting two different forms of reporting in one set of accounts, which can be confusing to non-specialists. In recognition of this additional complexity, CIPFA/LASAAC agreed a project in June 2021 to improve the presentation of local authority accounts, which is intended to inform the development of the 22/23 Accounting Code.

Through engagement with relevant organisations, we have been advised that, in some cases, local authority accounts include some information that goes beyond what is necessary, leading to additional auditing work. We would therefore recommend local authorities consider CIPFA's guidance on streamlining the accounts, which provides practical suggestions on how accounts can strike a better balance between compliance with standards and providing clearer, simpler and more transparent information.

HM Treasury will be undertaking a thematic review of the valuation of non-investment property for financial reporting purposes in the public sector, including the long standing policy decision to hold such assets at valuation rather than historic cost. This will consider the benefits to users of the financial information and the associated costs. It will look to identify where burdens could be reduced without compromising the needs of users. It is intended that this will inform development of the Accounting Code from 22/23 onwards.

The government has also asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for operational property, plant and equipment revaluations under certain circumstances (this would not include investment properties). An evaluation of possible consequences (unintended or otherwise) will be undertaken before any new proposals are finalised in the new year.

Standardised statement of service information. In our original response to the Redmond Review, we accepted the recommendation to produce a new standardised statement of service information, that would help to improve the transparency and understandability of local authority financial reporting. While we remain committed to this, we are delaying implementation while audit timeliness issues are so severe, as we do not think it is the right time to introduce these new accounting and auditing requirements.

Public Interest Entities. Local authorities which have debt listed on the London Stock Exchange fall within the definition of a Public Interest Entity (PIE). The FRC place additional requirements on auditors for local authorities which are deemed PIEs. A local authority PIE audit therefore tends to require more resources in terms of finance, time and specialist staffing to produce the audit opinion. This is not necessarily as valuable as for a private sector PIE, given that enhanced levels of transparency and scrutiny already apply for local government financial reporting.

The government recently consulted on expanding the definition of a Public Interest Entity, although this did not propose expanding the number of local authorities included in the definition. The government has noted representations from stakeholders on this question, including the additional burdens of extending the PIE definition to any further local authorities, and will confirm the position on this in the consultation response in due course.

Section 4: Longer-term measures to help stabilise the market and address long-term supply issues

Summary of commitments

- PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 – 2027/28.
- NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament,so that it will apply for the whole of the next appointing period
- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications

While the measures outlined in the sections above are designed to support improved timeliness in the short-term, it is clear that certain issues within the local audit market require a longer-term approach.

Procurement/ next appointing period

One such area concerns the procurement arrangements for local bodies, being managed by PSAA.

We have been working closely with PSAA since the Summer on their procurement strategy, which has been considered at key stages in its development by our new Liaison Committee. We are also currently finalising an updated Memorandum of Understanding between DLUHC and PSAA to reflect the interim system leadership arrangements, in line with the commitments we made in our spring report, while PSAA are currently accepting opt-in requests from local bodies ahead of their planned Invitation to Tender in April 2022.

PSAA published its updated procurement strategy in September 2021, which outlines their key objectives. These include encouraging existing suppliers to remain and creating opportunities for new suppliers to enter the market, encouraging prices which are realistic in the context of the current market, and encouraging existing suppliers to bid for new contracts. Further objectives include encouraging prices which are realistic in the context of the current market and supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery. Another key objective is to deliver audits that are of the required quality.

Specific proposals to achieve these objectives include the proposed 80/20 quality/cost evaluation methodology ratio, a proposed increase in the number of lots to somewhere between 7 and 11 with at least 2 further ‘development lots’, and the introduction of a new Dynamic Purchasing System.

Audit deadlines

We also recognise that the extent of ongoing changes in the local audit system is unhelpful to audit firms who are looking to plan for the next 5-year appointing period.

In March 2021 new regulations came in force to extend the deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21, a change which we committed to review after 2 years.

In light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. However, there are good reasons why an earlier deadline would be beneficial; elements of multiple central government departments’ and arms-length bodies’ accounts are subject to local audit (e.g. because they employ staff on local government pension schemes) and so extending the deadline risk the timely completion of those bodies’ accounts, which in turn can delay the preparation of the Whole of Government Accounts.

Therefore, we will, subject to consultation, introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts. Following this, to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the deadline will revert to 30 September for 5 years from until 2027/28, and be reviewed at that point.

We propose, subject to consultation, that the deadline for preparing draft accounts remains at 31 May, as the majority of local authorities are continuing to meet this requirement and any changes would have implications for the Whole of Government Accounts.

Code of Audit Practice

We also recognise the importance of having clarity over the scope of audit in future years, given any future additional requirements would necessitate increased audit capacity. To provide greater certainty to local auditors, we have agreed with the National Audit Office (NAO) and FRC that, as part of their current Code setting responsibilities, the NAO will prepare for a re-laying of the Code of Audit Practice 2020 in parliament in the new year, so that it will apply for the whole of the next appointing period.

Industry-led workforce strategy

We hope that these measures will help to provide clarity and security ahead of the next procurement, as well as helping to ensure that all parties can play their part in getting audit timeliness back on track in the short term.

We also remain committed to resolving the issues in the longer-term, which our wider system leadership reforms should help to address, and we will publish our formal consultation response in the new year.

One of the priorities for the new system leader, being established in shadow form from spring 2022, will be to address the fundamental audit capacity issues.

To aid this, we are proposing that, following the outcome of the next local audit procurement, DLUHC will work with the new system leader and 1-2 of the successful audit firms to develop an industry-led workforce strategy, to consider the future pipeline of local auditors, and associated questions related to training and qualifications. This will form part of the new system leader’s broader role in setting out the future priorities for the local audit system.

Section 5: Next steps

Following today’s publication, we will continue to work closely with key partners across the audit sector, including local bodies and audit firms, to deliver on the measures above, in addition to outstanding commitments we made in our response to the Redmond Review.

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AUDIT COMMITTEE – 28 JANUARY 2022

THE REGULATION OF INVESTIGATORY POWERS ACT 2000

1. INTRODUCTION

1.1 The purpose of this report is to provide the Audit Committee with a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

1.2 RIPA provides a statutory framework whereby certain surveillance and information gathering activities can be authorised and conducted by the Council in a lawful manner where they are carried out for the prevention and detection of crime and, in some cases, for the prevention of disorder.

1.3 The Council has two policies ('the policies') relating to its use of RIPA:

1.3.1 Surveillance Policy – updated January 2019 (**Appendix 1**)

1.3.2 Policy for the Acquisition of Communications Data – updated January 2019 (**Appendix 2**)

1.4 The Legal Services Manager is required to report to the Audit Committee annually on the Council's use of RIPA.

2. BACKGROUND

2.1 When the Human Rights Act 1998 came into force in 2000 it made the fundamental rights and freedoms contained in the European Convention on Human Rights (ECHR) enforceable in the UK.

2.2 Article 8 of the ECHR provides that individuals have the right to respect for private and family life and Article 6 of the ECHR provides that individuals have the right to a fair trial.

2.3 The use of covert surveillance techniques is considered to be an interference with this Article 8 right and therefore RIPA provides a framework to render lawful surveillance activities which might otherwise be in breach of the ECHR. It is also aimed at ensuring that evidence obtained against a person to be used in criminal proceedings is obtained in a fair manner.

2.4 RIPA regulates three surveillance techniques available to local authorities, namely:

2.4.1 Directed surveillance - covert surveillance which is carried out as part of a specific investigation and is likely to involve the obtaining of private information about the person under investigation;

2.4.2 Covert Human Intelligence Sources (CHIS) – use of a person who establishes and maintains a relationship with the person under investigation in order to obtain and disclose information; and

2.4.3 The acquisition and disclosure of communications data - obtaining information from communication service providers (e.g. the postal service, telephone companies and internet companies) about the use made of a service (e.g. itemised billing, internet connections or records of registered post) and user information (e.g. subscriber names, addresses or other customer information).

2.5 RIPA provides that the above activities may be authorised by local authorities but must be necessary and proportionate.

3. THE COUNCIL'S USE OF RIPA

3.1 The Council uses its powers under RIPA infrequently.

3.2 The Council did not authorise any surveillance activities under RIPA since the last report to the Audit Committee in January 2021.

4 TRAINING

4.1 In accordance with the policies further training will take place in 2022. However, where a RIPA investigation is contemplated, the relevant officers are required to contact Legal Services in advance so an update training session can be provided.

5 INVESTIGATORY POWERS COMMISSIONER INSPECTION

5.1 The Investigatory Powers Commissioner's Office (IPCO) provides independent oversight of the use of investigatory powers by public authorities and the Council was subject to a remote assessment in December 2018.

5.2 The next inspection will be due in 2022.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no environmental implications arising from this report.

7. CRIME AND DISORDER IMPLICATIONS

7.1 The Council's use of RIPA relates to the prevention and detection of crime and, in some cases, the prevention of disorder. It is essential the Council complies with RIPA if covert surveillance techniques are used in order to prevent legal challenge and ensure that evidence obtained is admissible in criminal proceedings. As stated above, the Council rarely uses its powers under RIPA.

8. CONCLUSION

8.1 RIPA provides the Council with a statutory framework to follow so that it may carry out various covert investigatory activities in a lawful manner.

8.2 The Council uses its powers under RIPA infrequently, but when use is made of such powers it is essential that this is done in accordance with the law and the Council's policies.

9. RECOMMENDATION

It is recommended that:-

Members note the use made by the Council of its powers under RIPA.

Further Information

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Background Papers

Published documents

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New Forest District Council

SURVEILLANCE POLICY

Human Rights Act 1998

Regulation of Investigatory Powers Act 2000

Protection of Freedoms Act 2012

Investigatory Powers Act 2016

THIS POLICY MUST BE READ IN CONJUNCTION WITH THE REVISED HOME OFFICE CODES OF PRACTICE: "COVERT SURVEILLANCE AND PROPERTY INTERFERENCE" AND "COVERT HUMAN INTELLIGENCE SOURCES" (AUGUST 2018) AND ANY GUIDANCE ISSUED BY THE INVESTIGATORY POWERS COMMISSIONER'S OFFICE

CONTENTS **Page**

1 BACKGROUND

1.1 When the Human Rights Act 1998 came into force in 2000 it made the fundamental rights and freedoms contained in the European Convention on Human Rights enforceable in UK Courts and Tribunals.

1.2 Article 8 of the Convention reads as follows: -

“Everyone has the right to respect for his private and family life his home and his correspondence.

There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of public safety, for the protection of order, health or morals, or for the rights and freedoms of others.”

1.3 Investigating Officers of the Council may, from time to time, engage in activities which interfere with a person’s right under Article 8 of the Convention to respect for their private and family life. Such interference is only permissible where it complies with the exceptions set out in Article 8.

1.4 The Regulation of Investigatory Powers Act 2000 (“RIPA”) provides a statutory framework whereby certain surveillance activities can be authorised and conducted compatibly with Article 8 by public bodies. RIPA is also supplemented by the relevant provisions of the Investigatory Powers Act 2016.

1.5 Officers of New Forest District Council (“the Council”) may seek authorisation under RIPA to engage in the following types of surveillance: -

- Directed surveillance
- Use of a Covert Human Intelligence Source

1.6 These surveillance techniques can **only** be authorised under RIPA where the use of the surveillance is necessary for the **prevention or detection of crime**, or (in some cases) for the **prevention of disorder**. Since **1 November 2012**, it is **only** possible to authorise directed surveillance under RIPA where the matter under investigation constitutes a **criminal offence** for which the courts could impose a maximum term of at least six months’ imprisonment, **or** where the surveillance is in connection with the sale of alcohol or tobacco to children.

1.7 The Council can only authorise surveillance under RIPA in connection with the performance of the specific public functions which it carries out. It cannot use RIPA to authorise surveillance in connection with the ordinary functions (e.g., employment issues) which are carried out by all public authorities.

1.8 This Surveillance Policy explains what is involved in each of these two types of surveillance. The policy sets out the relevant responsibilities of the Council and its officers, and is designed to ensure that any such surveillance is conducted in a manner that will comply with the safeguards embodied in the Human Rights Act 1998 and RIPA.

1.9 All Investigating Officers and Authorising Officers should be familiar with RIPA, this Surveillance Policy, the Codes of Practice issued by the Home Office relating to the Use of Covert Human Intelligence Sources and Covert Surveillance and Property

Interference, and the Procedures and Guidance issued by the Investigatory Powers Commissioner's Office

2 DEFINITIONS:

2.1 Confidential Information

This includes:

- Matters subject to legal privilege: Information relating to communications between a professional legal advisor and their client for the purposes of giving advice, in contemplation of legal proceedings or relating to legal proceedings.
- Confidential personal information: Information which relates to the physical or mental health, or spiritual counselling of a person (living or dead) who can be identified from it. For example, information about medical consultations/medical records.
- Confidential constituent information: Information relating to communications between a Member of Parliament and constituent in respect of constituency matters.
- Confidential journalistic information

2.2 Collateral Intrusion

Collateral Intrusion is the likely effect of the use of surveillance on the private and family life of persons who are not the intended subjects of the activity.

2.3 Surveillance

Surveillance includes

- monitoring, observing or listening to persons, their movements, their conversations or their other activities or communications.
- recording anything monitored, observed or listened to in the course of surveillance.
- surveillance by, or with, the assistance of a surveillance device.

Surveillance can be **overt** or **covert**.

2.4 Overt Surveillance

Overt surveillance is surveillance which is not secretive or hidden. It includes surveillance where the subject has been told it will happen.

2.5 **Covert Surveillance**

Covert surveillance is surveillance carried out in a manner calculated to ensure that subjects of it are unaware that it is or may be taking place.

2.6 **Directed Surveillance**

Directed surveillance is **covert** but **not intrusive** and is undertaken:

- For the purposes of a specific investigation or a specific operation
- In such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation) and
- Otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation to be sought for the carrying out of the surveillance

2.7 **Intrusive surveillance**

Intrusive Surveillance occurs when surveillance:

- is covert;
- relates to residential premises and/or private vehicles; and
- involves the presence of a person in the premises or in the vehicle or is carried out by a surveillance device in the premises/vehicle. Surveillance equipment mounted outside the premises will not be intrusive, unless the device consistently provides information of the same quality and detail as might be expected if they were in the premises/vehicle.

Intrusive surveillance cannot be carried out or approved by the Council.

2.8 **The conduct and use of covert human intelligence sources (CHIS)**

The conduct and use of covert human intelligence sources occurs when a person establishes or maintains a personal or other relationship with a person:

- For the covert purpose of using the relationship to obtain information or to provide access to any information to another person or

To covertly disclose information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.

3 DIRECTED SURVEILLANCE

3.1 This paragraph should be read in conjunction with the Revised Home Office Code of Practice "Covert Surveillance and Property Interference" which can be found at https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice

3.2 Directed surveillance is surveillance which meets **all** of the following criteria:

i. It is covert, but not intrusive surveillance

Surveillance will be covert if it is carried out in a way calculated to ensure that the subject of the surveillance is unaware that it is taking place.

The Council **cannot** engage in intrusive surveillance.

ii. It is conducted for the purposes of a specific investigation or operation

iii. It is likely to result in the obtaining of private information about a person (whether or not specifically identified for the purposes of the investigation or operation)

"Private information" includes any information relating to a person's private or family life, including their relationships with others, their family, and professional or business relationships.

For more information about what constitutes "private information", see paragraph 5 below.

iv. It is conducted otherwise than by way of an immediate response to events or circumstances, the nature of which is such that it would not be reasonable for an authorisation under RIPA to be sought.

For example, if an officer happens to spot an offence taking place, they may stop and take photographs as evidence of that offence, without requiring prior authorisation under RIPA.

3.3 Any officer intending to conduct directed surveillance must seek prior authorisation of that surveillance under RIPA (see paragraphs 8,9 & 10 below, regarding applications and authorisations).

3.4 Since **1 November 2012**, it is **only** possible to authorise directed surveillance under RIPA where the matter under investigation constitutes a **criminal offence** for which the courts could impose a maximum term of at least six months' imprisonment, **or** where the surveillance is in connection with the sale of alcohol or tobacco to children.

3.5 **Examples**

3.5.1 Since 1 November 2012, it is no longer possible to authorise directed surveillance under RIPA for the following offences:

- Dog fouling
- Littering
- Planning offences
- Noise abatement notices

As the courts **cannot** impose a maximum term of at least six months' imprisonment.

3.5.2 It is possible to authorise directed surveillance under RIPA for some offences under the following categories:

- Fly tipping
- Benefit fraud
- Trading standards offences
- Financial offences
- Dangerous dogs
- Listed building offences

As the courts **can** impose a maximum term of at least six months' imprisonment.

3.6 It is possible that on rare occasions, officers may need to carry out covert surveillance which falls outside the scope of RIPA, either because it falls outside of the Council's core functions (i.e. its specific public functions) and is therefore an ordinary function undertaken by all authorities (e.g., disciplinary investigations) or because the matter under investigation does not pass the imprisonable crime threshold. Such surveillance may not be unlawful, but would take place without the protection afforded by RIPA. In these situations, officers would normally be expected to use similar procedures and forms to those used for RIPA operations, applying the same tests of necessity and proportionality, in order to protect the Council from allegations that it has acted unfairly. Should you wish to conduct such covert surveillance, advice must first be sought from Legal Services.

4 CCTV

4.1 The Council operates a close circuit television system within certain towns in the New Forest District. Use of this system by the council or third parties such as the police for directed surveillance would require authorisation under RIPA.

4.2 Overt CCTV cameras which are permanently sited for the purposes of, for example, monitoring traffic flow or public safety will not generally require RIPA authorisation, since the public will be aware that such systems are in use. However, there may be occasions when the Council wishes to use such CCTV cameras for the purposes of a specific investigation or operation or to target a specific person. In such circumstances (unless as an immediate response to events) consideration must be given as to whether authorisation for directed surveillance is required.

4.3 For example, authorisation for directed covert surveillance is likely to be required if the Council wishes to make use of permanently sited overt CCTV cameras in circumstances where Officers have received reports of unlawful trading at a specific location, and wish to use those existing CCTV systems to keep watch for such activities.

4.4 If another agency – eg the Police – wishes to use the Council's CCTV cameras for one of their investigations, this must be agreed by the Head of Public Health and Community Safety, or by the Civil Contingencies and CCTV Manager. A copy of the other agency's RIPA authorisation form must be obtained and the details held with the Council's central register. In such circumstances, as long as there is a Police RIPA authorisation, there is no separate need for one of the Council's Authorised Officers to authorise the use of the cameras.

4.5 **Deployable CCTV**

The deployment of mobile surveillance cameras is likely to be directed surveillance in all cases and appropriate RIPA authorisation will be required. Additionally, applicants will be required to complete a “Mobile CCTV Deployment Form”, in accordance with the Council’s Deployable (Mobile) CCTV Camera Policy. This form should be submitted to the Council’s CCTV Manager.

5 PRIVATE INFORMATION

5.1 The 2000 Act states that private information includes any information relating to a person’s private or family life. Private information should be taken generally to include any aspect of a person’s private or personal relationships with others, including family and professional or business relationships. Private information may include personal data, such as names, telephone numbers and addresses.

5.2 Whilst a person may have a reduced expectation of privacy when in a public place, surveillance of that person’s activities in public may still result in the obtaining of private information. This is likely to be the case where that person has a reasonable expectation of privacy even though acting in public. For example, two people holding a conversation on a public street or bus may have a reasonable expectation of privacy, even though they are in a public place.

5.3 Private life considerations are particularly likely to arise if several records are to be analysed together in order to establish, for example, a pattern of behaviour. In such circumstances, the totality of information gleaned may constitute private information even if individual records do not. For example, where an officer drives past a restaurant to take a photograph of the exterior, this is unlikely to require authorisation under RIPA, as the officer is not collecting private information. However, if the officer wishes to revisit the restaurant on a number of occasions to try to establish occupancy of the premises, this is likely to result in the obtaining of private information about the occupier, and authorisation for directed surveillance will usually be required.

6 CONDUCT AND USE OF COVERT HUMAN INTELLIGENCE SOURCES (“CHIS”)

6.1 This paragraph should be read in conjunction with the Home Office Revised Code of Practice “Covert Human Intelligence Sources” which can be found at https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice

6.2 The conduct and use of covert human intelligence sources occurs when a person establishes or maintains a personal or other relationship with a person:

- For the covert purpose of using the relationship to obtain information or to provide access to any information to another person **or**
- To covertly disclose information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.

A person who uses a relationship to obtain information which they then pass to the Council could be a CHIS, even if the Council hasn’t asked them to use their relationship in this way (see paragraph 6.5 below).

6.3 The conduct or use of a CHIS may be authorised under RIPA where it is **necessary** for the **prevention or detection of crime**, or **for the prevention of disorder.**

6.4 A relationship is established or maintained for a covert purpose if it is conducted in a manner to ensure that one of the parties is unaware of its purpose. A relationship will only be used covertly and information will only be disclosed covertly if it is used or disclosed in a way which will ensure that one of the parties is unaware of the use or disclosure.

6.5 The use of such sources by the Council is essentially the manipulation of a relationship to gain information and can amount to the use of an informant.. It should be noted that the use or conduct of a CHIS is a particularly intrusive and high risk covert technique. Therefore, where the use of a CHIS is envisioned there should be sufficient resources dedicated to the oversight and management of the operation. The Council is only likely to use a CHIS in very exceptional circumstances.

6.6 The CHIS will be the person who establishes or maintains the relationship as set out in paragraph 6.2 above.

- The provisions of RIPA are not intended to apply in circumstances where members of the public volunteer information to the Council that is within their personal knowledge, without being induced, asked or tasked by the Council. Therefore, the public can continue to provide information as part of their normal civic duties, or to contact numbers set up by the Council to receive information.

- However, a member of the public providing information **may** be a CHIS if their information is obtained in the course of, or as a consequence of, the existence of a personal or other relationship and they covertly pass that information to the Council. For example, where a member of the public gives repeat information about a suspect and it becomes apparent that the member of the public may be obtaining that information in the course of a family or neighbourhood relationship, it should be considered by the Investigating Officer whether that person is in reality a CHIS.

- This is known as a “status drift”. The Council accordingly needs to be alert to the fact that a public informant may in reality be a CHIS even if not tasked to obtain information covertly.

- Where such a “status drift” occurs, advice must be sought from Legal Services before any information received from this member of the public is relied on.

6.7 **Examples**

6.7.1 The following **will not** be a CHIS:

- A member of the public volunteers a piece of information to the Council regarding something he has witnessed in his neighbourhood. He will not be a CHIS as he is not passing on information as a result of a relationship which has been established or maintained for a covert purpose.
- A person complains about excessive noise coming from their neighbour’s house and the Council ask them to keep a noise diary. They will not be a CHIS, as they are not required to establish or maintain a relationship for a covert purpose.

6.7.2 The following **will** be a CHIS:

- Intelligence received by the Council suggests that a local public house will sell alcohol to minors if they are familiar with them. A person under the age of 18 is engaged and trained by the Council and deployed to attend the licensed premises on a number of occasions and then try and purchase alcohol. In this situation a relationship has been established and maintained for the covert purpose and therefore a CHIS authorisation will be required.
- Without being asked, a person provides regular information to the Council about their neighbours' working hours and income as they believe their neighbour is committing benefit fraud. The person regularly visits their neighbour and engages in conversations about their work for the purpose of obtaining this information and passing it to the Council.

6.8 If a CHIS is used, both the use of the CHIS and their conduct require prior authorisation.

- **Conduct** is establishing or maintaining a personal or other relationship with a person for the covert purpose of (or incidental to) obtaining and passing on information.
- **Use** includes actions inducing, asking or assisting a person to act as a CHIS.

6.9 The Investigating Officer should apply for such authorisation as soon as the conduct or use of a CHIS is contemplated (see paragraphs 8,9 & 10 below, regarding authorisations and applications).

6.10 Handling and Controlling the CHIS

6.10.1 If an authorisation is provided the Investigating Officer must ensure that they are aware of the extent and limits of what the CHIS is allowed to do and make sure that the CHIS is advised of this.

6.10.2 The Investigating Officer will be responsible for the day to day handling of the CHIS (they will be the "handler"). This will involve dealing with the CHIS on behalf of the Council, directing the day to day activities of the CHIS, recording information supplied by the CHIS and monitoring the CHIS's security and welfare.

6.10.3 The safety and welfare of a CHIS both during the operation and after the authorisation has been cancelled should be taken into account by the investigating officer. Every application for authorisation should therefore include a detailed risk assessment of the risk to the CHIS and the likely consequences should the role of the CHIS become known.

6.10.4 The line manager of the "handler" will be the CHIS "controller" and they will be responsible for the management and supervision of the "handler" and the general oversight of the use of the CHIS.

6.10.5 A record must also be made of the use made of the CHIS (see paragraph 17 below for the information which must be held in the Central Log).

6.11 **Records**

Records of relevant documentation relating to every CHIS should be kept for a period of at least five years in accordance with paragraph 17 of this Policy.

6.12 **Special considerations**

6.12.1 Special care should be taken where the use of CHIS may involve confidential information (see paragraphs 2.1 & 11).

6.12.2 Special safeguards should be put in place where the CHIS is under the age of 18. A child under the age of 16 may not be authorised to give information against his parents. The Regulation of Investigatory Powers (Juveniles) Order 2000 contains the special provisions which should be followed where the CHIS is a minor. In such cases the only Authorising Officer is the Chief Executive (or in his absence an Executive Head).

6.12.3 Special safeguards should also be used where the CHIS is a vulnerable individual. A vulnerable individual is defined by the Code of Practice as “a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself or herself, or unable to protect himself or herself against significant harm or exploitation.” The use of a vulnerable individual is only permitted in exceptional circumstances. In such cases the only Authorising Officer is the Chief Executive (or in his absence an Executive Head).

7 ONLINE COVERT ACTIVITY

7.1 The extent of the information that is now available online, presents new opportunities to view or gather information which may assist in preventing or detecting crime or carrying out other statutory functions, as well as in understanding and engaging with the public.

7.2 It is important that the Council is able to make full and lawful use of this information for its statutory purposes. Much of it can be accessed without the need for RIPA authorisation; use of the internet prior to an investigation should not normally engage privacy considerations. But if the study of an individual’s online presence becomes persistent, or where material obtained from any check is to be extracted and recorded and may engage privacy considerations, RIPA authorisations may need to be considered.

7.3 The use of the internet (including social and business networking sites) may be required to gather information prior to and/or during an operation (including a CHIS operation). This may amount to directed surveillance.

7.4 In addition, a CHIS may communicate online.

7.5 Even if something is posted on a publicly-accessible networking site, it may still be private information. Where the use of the internet is intended as part of an investigation, the investigating officer must consider whether the proposed activity is likely to interfere with a person’s Article 8 right to private and family life. The potential for collateral intrusion should also be considered. Such activity should only be contemplated if it is necessary and proportionate to the specific operation. If private information is likely to be obtained a directed surveillance authorisation must be obtained.

7.6 Advice should be sought from Legal Services on the use of the internet as part of an investigation.

8 AUTHORISATIONS, RENEWALS, REVIEWS AND CANCELLATIONS

8.1 Prior authorisation is required for the use of **directed surveillance** or the **conduct or use of a CHIS**.

8.2 Procedure for Authorisations

8.2.1 Each officer who undertakes investigations on behalf of the Council must seek authorisation in **writing** for any directed surveillance or the conduct and use of a CHIS.

8.2.2 A full list of Authorising Officers, is shown at **Appendix 1.** Authorising Officers **must not** delegate their powers under RIPA.

8.2.3 A checklist for the respective duties of the Investigating Officer and the Authorising Officer is set out in **Appendix 2.** Further detail is provided on some of these duties in this Policy.

8.2.4 All applications for authorisations should be made on the applicable standard form (See paragraph 9).

8.2.5 The Authorising Officer must describe explicitly in the authorisation what is being authorised. This should be in the Authorising Officer's own words rather than merely by reference to the terms of the application.

8.2.6 The Authorising Officer may add a proposed activity to the application if it is deemed necessary, and the Authorising Officer may authorise only some of what is being requested by the Investigating Officer. Where only part of the application is being authorised, the Authorising Officer should state the reason for this decision.

8.2.7 Authorising Officers should not normally be responsible for authorising operations in which they are directly involved as the Authorising Officer should be independent of the investigations. Where this is unavoidable this must be highlighted on the authorisation.

8.2.8 Every authorisation must state the rank of the person providing it.

8.3 Authorisations Requiring Judicial Approval

8.3.1 Since **1 November 2012**, where an authorisation has been granted for directed surveillance or the conduct or use of a CHIS, that authorisation shall not have effect until it has been **approved** by a justice of the peace at the local Magistrates Court. **No directed surveillance or the use of a CHIS can take place until this approval has been obtained.**

8.3.2 Legal Services should be instructed to prepare the application to the justice of the peace.

8.4 **Duration**

8.4.1 The time limit for a standard **written** authorisation for directed surveillance is 3 months from the day of the authorisation.

8.4.2 The time limit for a standard **written** authorisation for a CHIS is 12 months from the day of the authorisation.

8.4.3 It should be noted that even if an authorisation is only required for a limited time, it must still be for the statutory periods outlined above. However, the authorisation can be reviewed and/or cancelled if it is no longer necessary and proportionate.

8.4.4 No further operations can be carried out after the expiry of the relevant authorisation unless it has been renewed.

8.4.5 It will be the responsibility of the Investigating Officer to ensure that direct surveillance or the conduct or use a CHIS is only undertaken under an appropriate and valid authorisation. It will be the Investigating Officer's responsibility to diarise when the authorisation expires.

8.5 **Reviews**

8.5.1 The Authorising Officer will be responsible for reviewing each authorisation at regular intervals. The Authorising Officer shall determine how often a review should take place at the outset and each review should be conducted by the predetermined date. As a guide, reviews should take place on a monthly basis. However, the Authorising Officer may determine that they should take place more or less frequently (if so, the reasons should be recorded).

8.5.2 Reviews should take place as often as necessary and practicable and this will need to be determined on a case by case basis. More frequent reviews should take place where surveillance results in collateral intrusion or access to confidential information. (see paragraphs 2.1, 2.2 & 11).

8.5.3 Reviews should also be held in response to changing circumstances and must take into account any subsequent action by the Council arising from the product of the surveillance, which may be in the form of the issue of notices, orders, or determinations by the Council, or the bringing of criminal or civil proceedings, or any other action.

8.5.4 It will be the responsibility of the Authorising Officer to diarise when reviews should be held.

8.5.5 All reviews should be recorded on the correct form (See paragraph 9).

8.6 **Renewal**

8.6.1 An authorisation may be renewed **before** it ceases to have effect if an Authorising Officer considers it necessary for the authorisation to continue. The renewal takes effect at the time at which the authorisation would have ceased to have effect. If necessary a renewal can be made more than once.

8.6.2 Before a renewal of an authorisation for the conduct or use of a CHIS the Authorising Officer must be satisfied that a review has taken place of:

- the use made of the source in the period since the grant or, as the case may be, latest renewal of the authorisation; and
- the tasks given to the source during that period and the information obtained from the conduct or the use of the source.

8.6.3 Since **1 November 2012**, where renewal of an authorisation has been granted for directed surveillance or a CHIS that renewal shall not have effect until it has been **approved** by a justice of the peace at the local Magistrates Court.

8.6.4 Where the renewal relates to the conduct or use of a CHIS the Justice of the Peace will need to be satisfied that a review has taken place of the matters listed in paragraph 7.6.2.

8.6.5 All renewals must be made on the correct form. (See paragraph 9).

8.7 **Cancellations**

8.7.1 All authorisations must be cancelled **as soon as** they are no longer required.

8.7.2 Even if an authorisation has expired it will not lapse and should be formally cancelled.

8.7.3 The Authorising Officer who granted or last renewed the authorisation must cancel the authorisation if the grounds for granting the authorisation no longer apply e.g. the aims have been met; risks have changed and authorisation is no longer appropriate.

8.7.4 If the Authorising Officer is not available, this duty will fall on one of the other Authorising Officers.

8.7.5 When cancelling an authorisation, the Authorising Officer should (where applicable):

- Record the date and times (if at all) that surveillance took place, and that the order to cease the activity was made.
- Record reason for the cancellation.
- Ensure that surveillance equipment has been removed and returned.
- Provide directions for the management of the material obtained as a result of the investigation.
- Ensure that the detail of persons subjected to surveillance since the last review or renewal is properly recorded.
- Record the value of the surveillance and interference (i.e. whether the objectives as set out in the authorisation were met.)

8.7.6 Authorisations may be cancelled orally. When and by whom this was done should be endorsed on the cancellation form when it is completed and recorded on the central record of authorisations. However, best practice will be for the authorisation to be cancelled in writing.

8.7.7 The Authorising Officer should also advise those involved in the surveillance or the CHIS to stop their actions with immediate effect.

8.7.8 Where necessary, when cancelling the use of a CHIS, the Authorising Officer should consider the safety and welfare of the CHIS, and should satisfy themselves that all safety and welfare matters are addressed.

8.7.9 All cancellations must be completed on the correct form (See paragraph 9).

9 APPLICATION FORMS

9.1 The standard forms can be found at https://www.gov.uk/government/collections/ripa-forms--2

9.2 The person completing the form is responsible for ensuring that the form used is the most up-to-date version issued by the Governement.

9.3 The forms for applications, renewals, reviews and cancellations should be completed in as much detail as possible.

9.4 For guidance on what should be included in the application for authorisation the Investigating Officer should refer to paragraph 5.6 of the 2018 Covert Surveillance and Property Interference Revised Code of Practice (for direct surveillance) or paragraph 5.11 in the 2018 Covert Human Intelligence Sources Revised Code of Practice (for CHIS).

9.5 Each investigation or operation should be given a unique reference number ("URN") on the application form by the Legal Services Manager. Any reviews, renewals or cancellation forms should be identified by the same URN.

9.6 The URN should be obtained from the Legal Services Manager (see paragraph 18).

9.7 Any application (or other) form which is not completed in full will be rejected by the Authorising Officer.

9.8 The role of the Investigating Officer is to present the facts and evidence to the Authorising Officer. They must also set out in detail why they consider the directed surveillance/use of a CHIS to be **necessary** and **proportionate** (see paragraph 10). The application should include consideration of any potential collateral intrusion (see paragraph 2.2) and measures taken to limit this. The application must state whether the Investigating Officer expects the investigation to result in the obtaining of confidential information (see paragraphs 2.1 &11).

9.9 Having reviewed the application, the Authorising Officer must decide whether they consider the activities applied for are **necessary** and **proportionate** (see paragraph 10). If so, they should decide whether to authorise some or all of the activities applied for. If they decide to authorise the application, they must record in detail the reasons that they have reached this decision, including the reasons that they have concluded the activities are necessary and proportionate.

10 THE NECESSITY AND PROPORTIONALITY TEST

10.1 No directed surveillance or use of a CHIS can be authorised under RIPA unless it can be demonstrated that it is necessary and proportionate.

10.2 The Authorising Officer must be satisfied that the proposed surveillance is **necessary and proportionate**.

10.3 **Necessary**

10.3.1 The use of the directed surveillance or conduct and use of a CHIS must be **necessary** for the **purpose of preventing or detecting crime** or **of preventing disorder**.

10.3.2 In order for the Authorising Officer to be satisfied that the surveillance is necessary, the Investigating Officer must clearly identify in the application the conduct that it is aimed to prevent or detect, and an explanation of why covert techniques are required.

10.4 **Proportionate**

10.4.1 The intrusion into the private and family life of the subject of the operation must be **balanced** against what the activity seeks to achieve. The intrusion must not be excessive or arbitrary.

10.4.2 The authorisation should therefore demonstrate how the Authorising Officer reached the conclusion that the act is proportionate

10.4.3 The activities will not be proportionate if the activities are excessive in the circumstances of the case or if the information could be obtained by a less intrusive means.

10.4.4 The following elements of proportionality must be considered by the Authorising Officer and should be addressed in the authorisation:

- balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence;
- explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;
- considering whether the conduct to be authorised will have any implications for the privacy of others, and an explanation of why (if relevant) it is nevertheless proportionate to proceed with the operation
- considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- evidencing, as far as reasonably practicable, what other methods had been considered and why they were not implemented.

10.4.5 When authorising a CHIS, the Authorising Officer must also:

- be satisfied that the conduct and/or use of the CHIS is proportionate to the objective sought to be achieved;
- be satisfied that appropriate arrangements are in place for the management and oversight of the CHIS. These arrangements must address health and safety issues by the carrying out of a formal and recorded risk assessment;
- consider the likely degree of intrusion for all those potentially affected;
- consider any adverse impact on community confidence that may result from the use or conduct of the CHIS or the information obtained; and
- ensure that records contain the required particulars of the CHIS and that these are not available except on a 'need to know' basis.

10.4.6 **Risk of Collateral Intrusion**

The Authorising Officer should consider the likely effect of the use of the direct surveillance or the conduct and use of a CHIS on the private and family life of persons who are not the intended subjects of the activity. The Authorising Officer must consider the risk of collateral intrusion and have a plan for managing any such risk.

If the impact on other persons cannot be avoided altogether, then any collateral intrusion must be proportionate.

The person carrying out the surveillance must inform the Authorising Officer if the investigation or operation unexpectedly interferes with the privacy of individuals not covered by the authorisation. The Authorising Officer must then consider whether the authorisation ought to continue or whether a new authorisation is required.

11 CONFIDENTIAL MATERIAL

11.1 Particular care should be taken where the subject of the investigation or operation might reasonably expect a high degree of privacy and where it is envisaged that the investigation may cause the Council to come into possession of Confidential Information (see definition at paragraph 2.1). In these cases, the surveillance can only be authorised by the Chief Executive (or in his absence an Executive Head). Applications which are calculated to obtain confidential information will only be authorised in very exceptional and compelling circumstances.

11.2 Where an Investigating Officer comes into possession of confidential material during the course of an investigation, s/he should seek legal advice from a member of the Council's Legal Services before taking any action in connection with that material.

11.3 Where it is envisaged that surveillance may cause the Council to come into possession of material which is subject to legal privilege, the Investigating Officer must seek legal advice from a member of the Council's Legal Services Section before the application for authorisation is made.

12 ACTIVITIES BY OTHER PUBLIC AUTHORITIES

The Investigating Officer must make enquiries of other public authorities whether they are carrying out similar activities, if he considers that there is such a possibility, in order to ensure that there is no conflict between the activities of the Council and those other public authorities.

13 JOINT INVESTIGATIONS

13.1 From time to time, Council officers may carry out investigations with officers from another public authority, for example:

- The police;
- The Department of Work and Pensions;
- The Environment Agency;
- The Food Standards Agency; or
- The Health and Safety Executive

13.2 Where one authority is acting on behalf of another, the tasking authority should normally obtain the RIPA authorisation. If an authorisation has been obtained by another agency, who wish the Council to carry out surveillance in accordance with that authorisation, an Authorising Officer must view that authorisation to ensure that Council officers, and the activities which they are being asked to carry out, are covered by that authorisation.

14 DATA PROTECTION

Private information collected as a result of surveillance may include personal data. It is the responsibility of the Authorising Officer to ensure that personal data is processed (including handling, dissemination, storage, retention and destruction) in accordance with the General Data Protection Regulation, the Data Protection Act 2018 and the Council's Data Protection Policy, Law Enforcement (Data Protection) Policy and the Protection of Special Category Data Policy.

15 DESTRUCTION OF WHOLLY UNRELATED MATERIAL

15.1 Surveillance may result in officers obtaining the following categories of material:

i. material which is wholly unrelated to the investigation (for example, information about persons who are not the subject of the surveillance, and have no relevant involvement with the subject of the surveillance);

ii. material regarding the subject(s) of the surveillance, which is unlikely to be used in connection with the investigation or any subsequent proceedings;

iii. material which is relevant to the investigation, and may be used in connection with subsequent proceedings

15.2 Material which is **wholly unrelated** to the investigation (category **i.** above) should be destroyed promptly and securely. As the material will have been collected in connection with the investigation of a criminal offence, advice should be sought from the Council's Legal Services section prior to the destruction of evidence.

15.3 All other material should be retained until the investigation is concluded and a decision is taken regarding what action, if any, will be taken in connection with the investigation. At that stage, the Authorising Officer will determine which materials are to be retained, and for how long.

15.4 Where criminal proceedings are contemplated, all material (save for wholly unrelated material) is potentially relevant. It must therefore be retained and will be disclosable in those proceedings.

16 TRAINING

16.1 Each officer of the Council with responsibilities for the conduct of an investigation, operation or authorisation under RIPA, will undertake training every three years to ensure that any such investigations, operations and authorisations undertaken are conducted according to the statutory requirements and the Codes of Practice. However, where a RIPA investigation is contemplated, the relevant officers are required to contact Legal Services in advance so an update training session can be provided.

16.2 Each officer who undertakes training in connection with their responsibilities under RIPA must keep a personal training record, and must send a copy of this training record every two years to the Legal Services Manager.

17 RECORDS OF AUTHORISATIONS

17.1 A centrally retrievable record of all authorisations will be held by the Legal Services Manager. This will contain the following information:

- the type of authorisation
- the URN
- the dates that the authorisation was granted, reviewed, renewed or cancelled.
- details of attendances at the Magistrates' Court to include date of attendances, the determining Magistrate, the decision of the Court and the time and date of that decision.
- the name and rank of the Authorising Officer for the initial authorisation and any reviews, renewals or cancellations.
- whether the Authorising Officer is involved in the investigation.
- the file reference for the investigation.
- whether the authorisation was likely to result in the obtaining of confidential material.

17.2 This centrally retrievable record will be stored in a manner which is confidential and secure. It will be retained for a period of at least **three years** from the date of cancellation of the authorisation for directed surveillance, and at least **five years** from the date of cancellation of the authorisation of a CHIS.

17.3 In addition, the Legal Services Manager will keep the following documents, where applicable, for a period of at least **three years** from the date of cancellation of the authorisation for directed surveillance, and at least **five years** from the date of cancellation of the authorisation of a CHIS:

- The application, authorisation, reviews, renewals, cancellations and the approval from the Magistrates Court.
- The frequency of the reviews prescribed by the authorising officer.
- The date and time when any instruction to cease directed surveillance or use of a CHIS was given.
- The date and time when any other instruction was given by an Authorising Officer.

17.4 In relation to the use of a CHIS the Legal Services Manager will also maintain the following documents:

- Any risk assessment in relation to the CHIS.
- The circumstances in which tasks were given to the CHIS.
- The value of the CHIS to the Council.

17.5 Investigating Officers and Authorising Officers may keep copies of relevant documentation but any such copies should be stored in a manner which is confidential and secure.

18 MONITORING

18.1 The Legal Services Manager will have responsibility for overseeing the authorising process to ensure good quality control of RIPA and will be referred to as the Legal Services Manager for the purposes of this Policy (see **Appendix 3**).

18.2 The Legal Services Manager will be responsible, along with the Senior Responsible Officer, for ensuring corporate awareness of RIPA.

18.3 The Legal Services Manager will be responsible for issuing each application with a URN.

18.4 All completed RIPA forms; applications (whether granted or refused), authorisations, reviews, renewals and cancellations, and approvals from the Magistrates' Court should be forwarded to the Legal Services Manager within **five working days** of the relevant decision. The Legal Services Manager will hold these documents securely.

18.5 The Legal Services Manager will also be responsible for the day to day management of the authorising process, and any initial queries from Investigating Officers or Authorising Officers should be addressed to the Legal Services Section.

18.6 Adherence to the requirements of RIPA, the Codes of Practice and this Policy should reduce the scope for making errors. The Legal Services Manager will conduct a regular review of errors and a record must be made of each review.

19 SENIOR RESPONSIBLE OFFICER

19.1 The Senior Responsible Officer will be the Chief Executive (see **Appendix 3**).

19.2 The Senor Responsible Officer will be responsible for the following:

- The integrity of the process in place within the Council for the management of CHIS and Directed Surveillance.
- Compliance with RIPA and with the Codes of Practice.
- Ensuring all Authorising Officers are of an appropriate standard.
- Oversight of the reporting of errors to the relevant oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors.
- Engagement with the Investigatory Powers Commissioner's Office (IPCO) inspectors when they conduct their inspections, where applicable.
- Where necessary, oversight of the implementation of post-inspection action plans approved by the relevant oversight Commissioner.

20 POLICY AND IMPLEMENTATION

20.1 The Policy is operational from **15 January 2019** and replaces any previous policies and procedures relating to surveillance.

20.2 The Legal Services Manager will report annually to the Audit Committee regarding the use made by the Council of its powers under RIPA.

20.3 The Audit Committee will review the Council's Surveillance Policy annually.

21 APPENDICES

Appendix 1 – Functions that may be undertaken by Authorising Officers

Appendix 2 - Application and Authorisation Checklist

Appendix 3 – Monitoring and Senior Responsible Officers

APPENDIX 1

FUNCTIONS THAT MAY BE UNDERTAKEN BY AUTHORISING OFFICERS:

1. Authorise an **application** for authority to carry out directed surveillance or for the conduct or the use of a CHIS.

2. **Review** an authorisation to carry out directed surveillance or the conduct or use of a CHIS on or before the specified date.

3. Authorise **renewal** of an application for authority to carry out directed surveillance or for the conduct or use of a CHIS.

4. Authorise **cancellation** of an application for authority to carry out directed surveillance or for the conduct or use of a CHIS.

5. Authorise **destruction** of wholly unrelated material arising from surveillance or from the conduct or use of a CHIS, with advice from the Legal Services Section where appropriate.

6. **Monitor** the produce of the surveillance or from the conduct or use of a CHIS.

7. Authorise an application where the likely consequence of directed surveillance or conduct or use of a CHIS would be intrusion on another person other than the target **(collateral Intrusion).**

8. Authorise an application where the likely consequence of the directed surveillance or conduct or use of a CHIS would result in Council obtaining **confidential material.**

9. Authorise the use of a CHIS who is a minor.

10. Authorise the use of a CHIS who is a vulnerable person.

RANK/TITLE	**AUTHORISED FUNCTIONS**
Chief Executive	1-10
Executive Heads	1-7 (8,9,10 in Chief Executive’s absence)
Service Managers for: Planning Environmental and Regulation Street Scene Revenue and Benefits Housing Estates Management & Support.	1-7

APPENDIX 2

APPLICATION AND AUTHORISATION CHECKLIST

Investigating Officer must:

Read the Surveillance Policy document and be aware of any other relevant guidance.	
Determine that directed surveillance and/or a CHIS is required.	
For directed surveillance , assess whether the authorisation will be in accordance with Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) (Amendment) Order 2012 and be able to demonstrate that the suspected offence is subject to a custodial sentence of 6 months or more or that the surveillance is in connection with the sale of alcohol or tobacco to children (see paragraph 3.4 of this Policy).	
Assess whether authorisation is necessary under RIPA and whether the surveillance could be done overtly.	
Consider whether surveillance will be proportionate.	
Consider all less intrusive options which may be available and practicable **and use that option first.**	
If authorisation is **necessary and proportionate**, request a URN from the Legal Services Manager, prepare and submit an application to carry out directed surveillance or conduct or use of a CHIS to an Authorising Officer.	
REVIEW REGULARLY and submit to Authorising Officer on date set.	
If operation is no longer necessary or proportionate, complete **cancellation form** and submit to Authorising Officer.	

Authorising Officer must:

Consider in detail whether all options have been duly considered, including taking into account the Surveillance Policy document and any other relevant guidance.	

For directed surveillance, confirm that the offence is subject to a custodial sentence of 6 months or more or the surveillance is in connection with the sale of alcohol or tobacco to children (see paragraph 3.4 of this Policy).	
Consider whether surveillance can be considered to be in accordance with the law and is **necessary and proportionate** to the offence being investigated.	
Authorise **only** if an overt or less intrusive option is not practicable.	
Ensure the relevant judicial authority has made an order approving the grant of the authorisation.	
If surveillance is necessary and proportionate: • Review authorisation • Set review timetable (at least monthly)	
Cancel authorisation when it is no longer necessary or proportionate.	

ESSENTIAL:

- Officers must use the correct RIPA forms (which can be found on the Home Office website www.homeoffice.gov.uk).
- A URN must be obtained from the Legal Services Manager before submitting an application for authorisation.
- Once authorised, approval must be obtained from a Magistrates Court before any surveillance commences.
- All RIPA application forms (whether authorised or rejected) must be sent to the Legal Services Manager **within 5 working days**. This must include reviews, renewals and cancellations
- If in any doubt, seek advice from the Legal Services Manager or the Senior Responsible Officer **before** any directed surveillance and/or CHIS is authorised, renewed, cancelled, or rejected.

APPENDIX 3

MONITORING AND SENIOR RESPONSIBLE OFFICERS

Name	Job Title	RIPA Role
Bob Jackson	Chief Executive	Senior Responsible Officer
Andrew Kinghorn	Legal Services Manager	Monitoring

New Forest DISTRICT COUNCIL

POLICY FOR THE ACQUISITION OF COMMUNICATIONS DATA

Human Rights Act 1998,

Regulation of Investigatory Powers Act 2000

Protection of Freedoms Act 2012

Investigatory Powers Act 2016

THIS POLICY MUST BE READ IN CONJUNCTION WITH THE CURRENT HOME OFFICE CODE OF PRACTICE: "ACQUISITION AND DISCLOSURE OF COMMUNICATIONS DATA".

CONTENTS **Page**

1 BACKGROUND

1.1 When the Human Rights Act 1998 came into force in 2000 it made the fundamental rights and freedoms contained in the European Convention on Human Rights enforceable in UK Courts and Tribunals.

1.2 Article 8 of the Convention reads as follows: -

"Everyone has the right to respect for his private and family life his home and his correspondence.

There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of public safety, for the protection of order, health or morals, or for the rights and freedoms of others."

1.3 Investigating Officers of the Council may, from time to time, engage in activities which interfere with a person's right under Article 8 of the Convention to respect for their private and family life. Such interference is only permissible where it complies with the exceptions set out in Article 8.

1.4 The Regulation of Investigatory Powers Act 2000 ("RIPA") provides a statutory framework whereby certain investigations can be carried out in a lawful, regulated and proportionate manner so that an individual's Article 8 rights are not infringed.

1.5 This Policy is concerned with the provision in RIPA enabling certain communications data to be acquired by public authorities in a manner which is compatible with Article 8. This Policy sets out the relevant responsibilities of the Council and its officers, and is designed to ensure that any acquisition of communications data is conducted in a manner that will comply with the safeguards embodied in the Human Rights Act 1998 and RIPA. (The Council has a separate Surveillance Policy which deals with Directed Surveillance and Covert Human Intelligence Sources).

1.6 The acquisition of communications data can **only** be authorised by the Council under RIPA where the use of the surveillance is necessary for the **prevention or detection of crime** or for the **prevention of disorder**.

1.7 All officers who apply for communications data to be obtained or disclosed should be familiar with RIPA, this Policy, and the Home Office "Code of Practice for the Acquisition and Disclosure of Communications Data" which can be found at https://www.gov.uk/government/publications/code-of-practice-for-the-acquisition-and-disclosure-of-communications-data.

1.8 Acquiring communications data without authorisation or outside the scope of an authorisation will mean that the "protective umbrella" of RIPA is unavailable, and could expose the Council to the risk of legal action. It may also result in disciplinary action being taken against the officer/officers involved.

2 NATIONAL ANTI-FRAUD NETWORK

2.1 The Council uses the National Anti-Fraud Network ("NAFN") to deal with all applications for the acquisition of communications data. The application process, and NAFN's role in this process, is detailed below under "Applications and Authorisations".

2.2 NAFN provides a service whereby all applications are checked by an accredited individual (a "Single Point of Contact" or "SPoC") to ensure compliance with RIPA. NAFN has direct access to the databases of a number of Communications Service Providers ("CSPs"). This means that if an authorisation is granted to allow a person to engage in conduct required to obtain communications data (see paragraph 4.1.1 below), and NAFN has access to the database of the relevant CSP, the NAFN SPoC will be able to obtain that data directly.

2.3 In order to access the NAFN secure website to make an application for communications data, an Applicant will require a username, password and PIN.

2.4 Should a manager consider that it is necessary for a Council employee to use the NAFN secure website to make applications for communications data, this must be authorised in writing by the employee's Service Manager. Where the Service Manager has provided their authorisation, the manager should notify NAFN of the details of the employee who requires log in details for the system.

3 WHAT TYPES OF DATA CAN BE ACQUIRED?

3.1 "Communications data" is generated, held or obtained by CSPs and may relate to use of the following services:-

3.1.1 Postal service

3.1.2 Email

3.1.3 Landline telephone

3.1.4 Mobile telephone

3.1.5 Internet

3.2 Local authorities may **NOT** acquire any information about the content of communications (eg, what was said, or what data was passed on), or the location of a mobile device used to make a call.

3.3 Local authorities may acquire communications data of the following types: -

3.3.1 **'Service use information'**. This is information about the services provided to an individual. It will include information about:

a) the use made by any person of any postal service or communications service;

b) the use made by any person of any part of a telecommunications system, in connection with the provision to or use of any telecommunications service.

Service information might include, for example, information regarding itemised billing (numbers called, timing and duration of service usage), use of call diversions/forwarding, itemised records of connections to internet services, information about amounts of data downloaded or uploaded, information about selection of preferential numbers or discount calls, records of registered post and parcel consignment.

3.3.2 **'Subscriber information'**. This is information about the person who uses a service. It will include any information held by the provider of a postal or telecommunications service, regarding the persons to whom they provide the service.

This might include subscriber details, including names, addresses and other customer information, for example, the identity of the subscriber to telephone number 01234 567891, or email address example@example.co.uk, or who is entitled to post to web space www.example.co.uk.

3.4 The above examples are not exhaustive lists of the communications data which may be acquired. If officers are in any doubt about the types of data which they may be able to acquire, or the ways in which this might be acquired, they should seek advice from a SPoC (see paragraph 5.3 below).

3.5 Applicants and Designated Persons (see paragraph 5.4 below) should bear in mind that it may be appropriate to obtain subscriber information (ie, to check that the person who subscribes to a service is a person relating to their investigation) before they can determine whether it is necessary and proportionate to go on to acquire service use information, such as itemised billing.

4 AUTHORISATIONS AND NOTICES

4.1 Communications data can be acquired in two ways: by Authorisation or by Notice:

4.1.1 An Authorisation enables the authorised person (generally the SPoC) to engage in conduct required to obtain the communications data;

4.1.2 A Notice requires a CSP to disclose the data in their possession, or to obtain and disclose the data.

4.2 The SPoC will be able to advise which of these methods will be most appropriate in relation to a particular investigation. In the majority of cases, the Council will use an Authorisation, authorising the SPoC to obtain the data required from the relevant CSP.

5 DIFFERENT ROLES

5.1 There are four key roles relevant to the acquisition of communications data:

- Applicant
- Single Point of Contact (SPoC)
- Designated Person
- Senior Responsible Officer

5.2 **Applicant**

The Applicant will generally be the investigating officer, who will complete the application form, setting out for consideration by the Designated Person the necessity and proportionality of acquiring the communications data.

5.3 **Single point of contact**

A SPoC must have formal accreditation, and is trained to facilitate the lawful acquisition of communications data and effective cooperation between a public authority and CSPs. In this way, the SPoC provides a "guardian and gatekeeper" function. The SPoC provides objective judgement and advice to both the Applicant and Designated Person.

The Council does not have an internal Single Point of Contact (SPoC), but uses the SPoCs at NAFN, who hold the necessary accreditation.

5.4 **Designated Person**

The Designated Person is the person within the Council who reviews the application and authorises the grant of an Authorisation, or the giving of a Notice, where they consider the acquisition to be necessary and proportionate.

Designated Persons must be independent from the operation or investigation to which the application relates, ie, they should have had no prior involvement with the operation or investigation. If the Designated Person is an Executive Head, they should not authorise applications from within their own Services.

In an exceptional, urgent situation (for example, if there is an immediate threat to life, or an urgent operational requirement for the prevention or detection of serious crime), if there is no independent Designated Person available, the involvement of a non-independent Designated Person must be recorded, and the justification for their involvement explained in their recorded considerations. The involvement of a non-independent Designated Person must be reported to the Commissioner at their next inspection, and the details and reasons may be published by the Commissioner.

The Council's Designated Persons are currently the Chief Executive and Executive Heads.

5.5 **Senior Responsible Officer**

The Senior Responsible Officer is responsible for: -

5.5.1 Ensuring the integrity of the processes in place within the authority to acquire communications data;

5.5.2 Ensuring compliance with RIPA and with the Code of Practice;

5.5.3 Oversight of the reporting of errors to the Investigatory Powers Commissioner's Office (IPCO), the identification of the reasons for the errors, and the implementation of processes to minimise repetition of errors;

5.5.4 Engagement with IPCO inspectors, and oversight of the implementation of any post-inspection plans.

The Council's Senior Responsible Officer is currently the Chief Executive.

6 NECESSITY AND PROPORTIONALITY

The obtaining or disclosure of communications data (by Authorisation or Notice) should only be authorised if the Designated Person is satisfied that:

6.1 The action is **NECESSARY** for the prevention or detection of crime or the prevention of disorder. An application should cover three main points, and should demonstrate the link between these three aspects:

- The event under investigation (ie, the crime or disorder);
- the person (eg, the suspect) and how they are linked to the event; and
- the communications data, and how this relates to the person and the event.

6.2 The action is **PROPORTIONATE.** It should: -

6.2.1 be no more than is required in the circumstances;

6.2.2 impinge as little as possible on the rights and freedoms of the individual concerned and of innocent third parties;

6.2.3 be carefully designed to meet the objectives in question;

6.2.4 not be arbitrary, unfair or based on irrational considerations.

7 APPLICATIONS AND AUTHORISATIONS

7.1 APPLICATION FORM

7.1.1 The Applicant must complete the NAFN application form, which is a standard form approved by the Home Office. As the Council uses the NAFN application process, the Applicant will access the application form by logging onto the NAFN website using their username, password and PIN.

7.1.2 The Applicant should have reference to the Home Office document: "Acquisition and Disclosure of Communications Data; Guidance for the Layout of a Chapter II Application Form and Guidance for Applicants and Designated Persons Considering Necessity and Proportionality".

7.1.3 The application form must include the following information: -

i) name, rank and position of the Applicant;

ii) a unique reference number (which will be generated automatically by the NAFN website);

iii) the operation name, if applicable;

iv) specify that the communications data is required in connection with the purpose of **preventing or detecting crime or disorder**;

v) describe the communications data required, specifying the time periods for which the data is sought, including (where relevant) any historic or future dates. Any time period specified should be the shortest period in which the objective for which the data is sought can be achieved;

vi) describe whether the communications data relates to a victim, a witness, a complainant, a suspect, next of kin, vulnerable person or other person relevant to the investigation or operation;

vii) explain why the acquisition of the communications data is **necessary** and **proportionate** (see paragraph 6 above);

viii) consider and, where appropriate, describe any collateral intrusion (ie, explain the extent to which the privacy of an individual not under investigation may be infringed, and why that infringement is justified in the circumstances);

ix) consider and, where appropriate, describe any potential unintended consequences of the application;

x) identify and explain the timescale within which the data is required.

7.2 SPoC REVIEW

7.2.1 Once the Applicant has completed the application form, this must be submitted electronically to the SPoC, who will check that the application is compliant with RIPA, that the acquisition intended is practical and lawful, and that the tests of proportionality and necessity have been properly considered and detailed.

7.2.2 If the SPoC considers that there are any problems with the application, or that further information is required, he will provide advice to the Applicant about the application. This may include, for example, advice about whether it is lawful, possible, or practical to obtain communications data of the nature sought by the applicant, and whether the tests of necessity and proportionality have been properly applied and explained. Where appropriate, the Applicant can make amendments to the application, and can re-submit the application to the SPoC.

7.2.3 Once the SPoC is satisfied with the application, he will complete the relevant sections of the application form, identifying the data to be acquired, and how it may be acquired. The SPoC will then notify the Designated Persons at the Council by email that there is an application pending which requires review.

7.3 AUTHORISATION BY DESIGNATED PERSON

7.3.1 The Designated Person must review the application in detail, before deciding whether to: -

a) authorise the application;

b) reject the application;

c) request further information.

7.3.2 Before deciding whether to authorise an application, the Designated Person should have reference to the Home Office document: "Acquisition and Disclosure of Communications Data; Guidance for the Layout of a Chapter II Application Form and Guidance for Applicants and Designated Persons Considering Necessity and Proportionality".

7.3.3 The Designated Person should consider the proportionality and necessity of the Authorisation/Notice applied for (see paragraph 6 above), and the potential for collateral intrusion. The Designated Person should not simply "rubber stamp" the application. Their reasons for authorising/declining the application should be clear and detailed, and demonstrate that they have considered the substantive merits of the application. If the Designated Person requires further information in order to decide whether to approve an application, they should notify the SPoC that more information is required.

7.3.4 The standard form requires the Designated Person to tick a box to confirm whether they are authorising a person to engage in conduct to acquire communications data, or whether they are authorising a Notice to be served on a CSP, requiring them to obtain/disclose data. The Notice or Authorisation documents themselves will be completed by the SPoC.

7.3.5 The authorised or rejected Application is then submitted back to the SPOC via the NAFN secure website.

8 JUDICIAL APPROVAL

8.1 From 1 November 2012 a person may not engage in the conduct authorised, or serve a Notice on a CSP requiring them to provide communications data, unless and until the Authorisation/Notice has been approved by a Justice of the Peace.

8.2 Before approving an Authorisation or Notice, a Justice of the Peace must be satisfied that: -

At the time of granting the Authorisation, or giving the Notice: -

i) There were reasonable grounds for believing that the Authorisation/Notice was necessary and proportionate;

ii) The person who granted the Authorisation/Notice was an appropriate Designated Person; and

iii) At the time when the Justice of the Peace is considering the matter, there remain reasonable grounds for believing that the Authorisation/Notice is necessary and proportionate.

8.3 The procedure for obtaining judicial approval is as follows: -

i) After the Designated Person has completed the authorisation on the NAFN secure website, NAFN will send an application pack to the Applicant;

ii) The application pack should be forwarded to the Legal Services Manager;

iii) A member of Legal Services will prepare the Magistrates' Court application, and will represent the Council at the Magistrates' Court hearing. The Applicant may be asked to prepare a witness statement and may be required to attend the hearing;

iv) If the Authorisation/Notice is approved, Legal Services will pass the approval to the Applicant. The Applicant will then liaise with the SPoC who will obtain the communications data from the CSP.

v) If the Authorisation/Notice is not approved, or is quashed by a Justice of the Peace, Legal Services will inform the Applicant. The Applicant must inform the SPOC and Designated Person that the Authorisation/Notice was not approved, or was quashed.

8.4 **No action may be taken under the Authorisation or Notice unless and until it has been approved by a Justice of the Peace.**

9 DATA PROTECTION AND HANDLING THE DATA ACQUIRED

9.1 When the communications data has been acquired, it will be made available to the Applicant on the NAFN secure website.

9.2 Information collected through acquisition of communications data may include personal data. It is the responsibility of the Applicant to ensure that personal data is processed (including handling, dissemination, storage, retention and destruction) in accordance with the General Data Protection Regulation (GDPR), the Data Protection Act 2018 and the Council's Data Protection Policy, Law Enforcement (Data Protection) Policy and the Protection of Special Category Data Policy . In particular, the information obtained must be handled and stored securely. Any queries regarding an officer's obligations under the Data Protection Act or the GDPR should be directed to the Council's Data Protection Officer. .

10 DURATION, RENEWAL AND CANCELLATION

Duration

10.1 All Authorisations and Notices should specify the time period in relation to which the communications data are to be obtained. For example, it might authorise the SPOC to obtain information regarding all calls made from a specified number to another specified number in the two weeks immediately following the Authorisation. Or a Notice might require a CSP to confirm the subscriber details for a specific email account between two specified dates in the past. An authorisation: -

10.1.1 Cannot authorise or require any data to be obtained more than one month after the Authorisation or Notice is granted; and

10.1.2 In the case of a Notice, cannot authorise or require any disclosure of data not already in the possession of the CSP after the end of one month from the date of the grant of the Notice or Authorisation.

Renewal

10.2 RIPA provides that an Authorisation or Notice may be renewed for a period of up to one month by the grant of a further Authorisation or the giving of a further Notice. A renewed Authorisation or Notice takes effect upon the expiry of the Authorisation or Notice it is renewing.

10.3 Where the Applicant believes that a renewal is necessary and proportionate, they should complete an addendum to the original application, setting out their reasons for seeking renewal. They should then submit this to the SPoC, who will review it in the same way as a new application. Once the SPoC is happy with the application for renewal, they will notify the Designated Person that an application requires review.

10.4 Where a Designated Person is granting a further Authorisation or giving a further Notice to renew an earlier Authorisation or Notice, they should: -

10.4.1 consider and record in writing the reasons that it is necessary and proportionate to continue with the acquisition of the data being generated; and

10.4.2 record the date (and where appropriate the time) when the Authorisation or Notice is renewed.

10.5 A renewal **must** be approved by a Justice of the Peace before it will take effect. Any renewal must therefore be submitted to the SPOC in plenty of time to enable it to be reviewed and forwarded to the Designated Person for approval, and for approval to be sought from a Justice of the Peace. Where a renewal has been approved by a Designated Person, Legal Services must be notified at least **seven** working days before expiry of the original Authorisation or Notice, so that they have sufficient time to seek approval from a Justice of the Peace.

10.6 In practice, given the requirement to obtain the approval of a Justice of the Peace and the time constraints this imposes, it will often be more practical to begin a new application, rather than to renew an existing Authorisation or Notice. Applicants who have not obtained, or do not expect to obtain, the data required within one month of grant of the Authorisation or Notice should discuss with the SPoC the best way to deal with this.

Cancellation

10.7 Where a Notice has been given to a CSP, and a Designated Person determines that it is no longer necessary or proportionate for the CSP to comply with the Notice, the Designated Person shall cancel the Notice,, and must ensure that the CSP is notified of the cancellation.

10.8 Where an Authorisation has been given and a Designated Person determines that it should cease to have effect because the conduct authorised is no longer necessary or proportionate, the Designated Person shall withdraw the Authorisation, and inform the person authorised by the Authorisation of the withdrawal.

10.9 The cancellation or withdrawal must: -

10.9.1 be in writing;

10.9.2 identify, by reference to its unique reference number, the Notice or Authorisation being cancelled;

10.9.3 record the date (and, where appropriate the time) when the Notice or Authorisation was cancelled;

10.9.4 record the name, office and rank/position held by the Designated Person.

10.10 Normally, it will be the Applicant who realises that a Notice or Authorisation is no longer necessary or proportionate (for example, because they have obtained the information required from elsewhere, or because the investigation has concluded for some reason). In this situation, the Applicant should notify the SPoC immediately. The SPoC will then alert the Designated Person that the Authorisation or Notice should be cancelled. The Designated Person should log on to the NAFN secure website to cancel the Authorisation or Notice. Where necessary, the SPoC will notify the CSP that the Authorisation or Notice has been cancelled.

10.11 Where the Designated Person who authorised the Application is unavailable, one of the other Designated Persons should cancel or withdraw the Authorisation or Notice so that no undue delay is caused.

11 RECORD KEEPING

NAFN keeps a full, electronic record of all applications on the Council's behalf, in accordance with the requirements of RIPA.

12 ERRORS

12.1 Where an error occurs in the grant of an Authorisation, the giving of a Notice, or as a consequence of any authorised conduct, or conduct undertaken to comply with a Notice, a record must be kept.

12.2 There are two types of error: -

i) an error which results in communications data being wrongly acquired or disclosed. This type of error is known as a "Reportable Error".

ii) an error which is identified after the Authorisation or Notice is given, but without data being wrongly obtained or disclosed. This type of error is known as a “Recordable Error”.

12.3 If an Applicant or Designated Person identifies a Reportable or Recordable Error, they must notify the SPoC immediately.

12.4 A Reportable Error must be reported to the IPCO. This report will be made by the SPoC at NAFN. It is **essential** that the Council’s Senior Responsible Officer and the SPoC is informed about any Reportable Error **immediately**, as the error must be investigated, the facts ascertained and the report made to the IPCO within five working days of discovery of the error. If a SPoC requests assistance from the Applicant or another Council officer in connection with the investigation of an error, all reasonable assistance should be provided promptly.

12.5 If the Council receives material from a CSP which has no relevance to any investigation or operation by the Council, the material should be securely destroyed as soon as the report to the IPCO has been made.

12.6 A record of all Recordable Errors will be held by NAFN, and made available for inspection by the IPCO on request. The record will contain details of the error, how the error occurred, and an indication of what steps have been or will be taken to prevent the error from occurring again. The SPoC will notify the Designated Person and the Council’s Senior Responsible Officer of all Recordable and Reportable Errors.

13 POLICY AND IMPLEMENTATION

13.1 The Policy is operational from 15 January 2019 and replaces any previous policies and procedures relating to the acquisition of communications data.

13.2 The Legal Services Manager will report to the Audit Committee annually regarding the use made by the Council of its powers under RIPA.

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Audit Committee – 28 January 2022

STRATEGIC RISK REGISTER

1. RECOMMENDATIONS

1.1 The Audit Committee are requested to offer any feedback on the Strategic Risk Register before it is presented to the Cabinet for review and adoption.

2. INTRODUCTION AND PURPOSE

2.1 The Council's Strategic Risk Register has been reviewed and amended to reflect the recent changes to the respective Portfolio Holders.

2.2 The Strategic Risk Register (Appendix 1), now included within this report contains the significant risks, as identified by senior and executive council officers in consultation with the Portfolio Holders, in the Council achieving the priorities set out in the 'Community Matters Corporate Plan 2020-24'.

3. BACKGROUND

3.1 Risk management aims to identify the risks that may impact on the Council achieving its objectives. Its purpose is to evaluate, design and implement effective measures to reduce both the likelihood and potential impact of these risks occurring.

3.2 The Council has a statutory responsibility to have in place arrangements for managing risks under the Accounts and Audit Regulations; which require a sound system of internal control, facilitates the effective exercise of the body's functions and includes arrangements for the management of risk. As such it features strongly in the Council's Local Code of Practice for Corporate Governance and is one of the primary assurance strands in the Annual Governance Statement, which places significant reliance on a robust risk management framework.

4. STRATEGIC RISK REGISTER

4.1 The revised Strategic Risk Register (Appendix 1) captures the most significant risks to the delivery of the current Corporate Plan and the proposed actions to mitigate these risks.

4.2 These risks have been identified with senior and executive council officers working alongside the Portfolio Holders to ensure a joined-up approach in capturing and documenting these risks. The risks are listed within the Portfolio Holder Dashboards, now regularly shared with the relevant scrutiny panels. The mitigation offered is closely aligned to portfolio resource and service plans and, in some cases, relies on working with partners to help achieve the objectives. Other risks specific to service delivery and their mitigations are considered within individual Service Manager Dashboards.

5. FINANCIAL IMPLICATIONS

5.1 There are none arising directly from this report, although strong risk management and a solid understanding of risk helps to support robust financial management.

6. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

6.1 There are no direct environmental or equality and diversity implications arising from this report.

For further information
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Insurance and Risk Officer
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Strategic Risk Register 2020 - 2024 • January 22

New Forest DISTRICT COUNCIL

Portfolio	Risk	Risk rating	Actions to mitigate risk	Residual risk rating
Leader's *Delivering a sustainable and prosperous New Forest and putting our community first*	Staff absences increasing due to Covid-19.		• Where appropriate some staff have been able to self-isolate and work from home, minimising the impact on service delivery.	
	There is a long-term negative impact on the local community and economy resulting from COVID-19.		• During the pandemic the Council has worked with partners to support the local community. The continued operation of the Local Resource Hub, together with the voluntary sector and local community groups has supported many of the most vulnerable in the community. The use of Covid ambassadors to help keep residents & visitors safe together with the use of Applemore Health & Leisure Centre as a vaccination site are examples of the additional actions that the Council has taken to support the community and negate the impact of the pandemic. The work of the Council's Revenue & Benefit Services and the Economic Development Team has enabled £60m to be paid out to local business to protect the local economy. The support for the successful Solent Freeport provides an opportunity for future jobs.	
	Inability to recruit and retain staff.		• Reflect changing labour market and plan for future recruitment and retention as part of the workforce strategy to maintain a strong offer as an employer of choice.	
	Uncertainty over the devolution agenda impacts on strategic direction.		• Review of Devolution White Paper on publication. Attendance at meetings and close liaison with partners, including with Hampshire County Council regarding the County Deal.	
Planning, Regeneration and Infrastructure *Encouraging development that meets local needs and enhances the special qualities of the environment*	Competitors in the private sector take more of the Building Control market share.		• Install new IT systems to enable enhanced mobile working and give officers on-site access to all Building Control. Forge links with local builders and architects and form working relationships by offering expertise and advice to enable building regulation standards are met. Continue to provide unrivalled service and charge only for the service provided to ensure value for money for the customer.	
	Ability to respond quickly to changes in Government Guidance, Regulations & Legislation.		• Ensure that potential changes are considered in Plan making work, ensure that changes in legislation are immediately reviewed and necessary changes to processes are made.	
	Unable to maximise the benefits to the District associated with growth due to insufficient capacity.		• Review capacity and skills and ensure that there is the right capacity and skills to maximise the benefits for the district resulting from growth.	
	Lack of five-year housing supply weakens the ability to deliver quality developments.		• Commenced work on Local Plan Part 2 'call for sites' proactive work on nitrate/phosphate/BNG projects to enable development to come forward, explore other enabling development measures to increase housing delivery numbers.	
	Delivering lower numbers of affordable homes on strategic sites due to viability issues.		• Ensure that viability assessments rigorously reviewed with comparisons made between different sites, considered whether other interventions are possible to redress viability issues. Need to consider impact on Housing Revenue Account delivery.	

Strategic Risk Register 2020 - 2024 • January 22

New Forest DISTRICT COUNCIL

Portfolio	Risk	Risk rating	Actions to mitigate risk	Residual risk rating
Housing and Homelessness *Creating balanced communities and housing options that are affordable and sustainable*	Increase in homelessness.		• Prevention focussed service, Landlord Liaison Role and Forum, Partnerships, Housing Support Team.	
	Loss of annual Government funding including, Homeless, Rough Sleeper Initiative and Discretionary Housing Payments.		• Reduction in Bed & Breakfast expenditure and funding to access the private rented sector. Proposed restructure to maintain efficiency. Ongoing lobbying of Government.	
	Loss of Housing Revenue Account (HRA) income through increase in rent arrears and void rent loss.		• New Arrears Management software procured to enable monitoring and early intervention and new arrears recovery initiatives introduced. Void Project Team established and external contractors procured to carry out works and minimise turnaround.	
	Compliance with property safety inspections (Gas, Electric, Legionella etc).		• All statutory compliance matters treated as priority with additional resources in place to deal with scaling up of fire safety matters and asbestos actions.	
	Changes in the Housing Market, valuations and legislation affecting housing development programmes.		• Maintain close liaison links with affordable housing providers and Homes England. Flexible approach to rent designation of properties and Shared Ownership/rent designation.	
People and Places *Engaging with our communities and maintaining the quality of the place in which they live*	Lack of investment in technology and/or the wrong technology results in an inability to move towards digital service delivery.		• Website delivery included in Information and Communication Technology work programme.	
	Inability for the council to deliver on its key priorities as set out within its Safer New Forest strategic plan.		• Combined resources of the Community Safety Partnership (CSP). • Partners sharing responsibility and collaborative working continue to enable and ensure the delivery of actions on key priorities as set out within the annual strategic partnership plan.	
	Lack of understanding of community needs and the ability to provide support for the needs, including with the impact of COVID-19.		• Community Strategy under development. • Community COVID-19. • Recovery Task and Finish Group recommendations. • Community Grants.	
	Lack of cemetery provision within the district in the medium term.		• To review the capacity of existing cemeteries and consider new sites for cemeteries.	

Strategic Risk Register 2020 - 2024 • January 22

New Forest DISTRICT COUNCIL

Portfolio	Risk	Risk rating	Actions to mitigate risk	Residual risk rating
Finance, Investment and Corporate Services *Enabling service provision and ensuring value for money for the council taxpayer*	Financial uncertainty arising from COVID-19 pandemic.		• Robust financial monitoring and reporting arrangements, prudent financial planning, government grants / support.	
	Comprehensive Spending Review may result in funding fluctuations and continued funding uncertainty.		• Prudent financial planning, with options to close the gap being drawn up and worked on. Budget equalisation reserve available to support the production of a balanced budget.	
	1 year settlement for 22/23 now known. Additional funding has been offered, but no longevity to it.		• Prudent financial planning, regard additional 22/23 funds as one-off.	
	Lack of suitable commercial property investment opportunities in the district.		• Good links with local agents, responsiveness to opportunities that arise.	
	Lack of suitable residential property opportunities in the District.		• Good links with local agents, responsiveness to opportunities, stronger residential property market than expected during the period of restrictions.	
	Delays in the delivery of new depot facilities.		• Contingent on operational needs being clarified as part of the proposed waste strategy.	
	Ability to support vulnerable residents with increased cost of living and potential fuel poverty.		• The one-off Household Support Fund grant will be utilised to support vulnerable residents. The NFCA have limited funding to support vulnerable households with fuel and energy bills, with the potential for further HCC funding. NFDC will work with them, and with partners, to provide advice and signpost support.	
Partnering and Wellbeing *Improving the health and wellbeing of our community*	Impact of Covid-19 on the leisure market results in lack of customer confidence and reduced income.		• Working with Freedom Leisure to minimise impact on service provision. Increased communication with customers.	
	Coronavirus pandemic - Reallocation of resources to high priority areas results in regulatory activity not being undertaken i.e., food hygiene inspections.		• Recruiting to vacant posts in all areas of the service, additional resource agreed in Environmental protection.	
	Coronavirus pandemic - Backlog of work which was impacted by restrictions.		• Ensure there are sufficient skills and resources in place to deal with backlogs. Further national guidance received for winter 2022 on reprioritisation.	
	Changing leisure market impacts on commercial partners ability to deliver Dibden Golf Course service.		• Review the partnership agreement to ensure service is not at risk in the short term.	
	Transition to strategic leisure partnership, including embedding working arrangements and performance standards.		• Dedicated contract manager, monthly partnership board meetings.	

Strategic Risk Register 2020 - 2024 • January 22

Portfolio	Risk	Risk rating	Actions to mitigate risk	Residual risk rating
Environment and Coastal Services *Working to reduce the impact on our special environment and protecting communities by managing our changing coastlines*	Service disruptions in Waste and Recycling due to HGV shortages and an increase in sickness levels (including Covid).		• Contingency plans in place to prioritise the collection of core service (clear and black sacks).	
	Insufficient resources to provide frontline services to the same staffing levels.		• Completion of business cases and recruiting to vacant posts.	
	Insufficient resources and key skills within coastal team to respond to the impacts of storm damage on coastal defences.		• Use existing working relationships with adjoining coastal partnerships and the Environment Agency to create additional capacity and specialist skills when needed.	
	Fluctuations in market values of mixed recycling and Dry-Mixed Recycling.		• Monitoring of tonnages and market values, to ensure that income forecasts are as accurate as possible. Regular revision of forecasts throughout year.	
Business, Tourism and High Streets *Helping local businesses to grow and prosper*	COVID-19 impact on the local economy.		• Deliver Government Covid Support Grants for businesses as and when available. In addition, the Economic Development team will continue to offer support and information for New Forest businesses and residents to ensure they have the tools they need to improve resilience and productivity.	
	Insufficient labour supply and/appropriately skilled labour supply amongst the New Forest workforce to support the delivery of the Freeport and the wider growth agenda.		• Work with partners and through the Freeport to provide a package of skills/upskilling and training to ensure supply of labour and ensure that residents can benefit from growth.	
	Covid-19 has accelerated the decline of retail nationally with varying impact on the health of New Forest highstreets.		• Annual monitoring of vacancy rates and footfall monitoring in place. Using planning system to promote mixed uses within town centres	

EMT – 12 JANUARY 2022
AUDIT COMMITTEE – 28 JANUARY 2022

INTERNAL AUDIT PROGRESS REPORT 2021-22 – DECEMBER 2021

1. INTRODUCTION

1.1. The purpose of this report is to provide the Audit Committee with an overview of internal audit activity completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

2. SUMMARY

2.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and

- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

2.2. In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

'communications on the internal audit activity's performance relative to its' plan.'

2.3. Appendix A summarises the performance of Internal Audit for 2021-22 to 31 December 2021.

3. FINANCIAL IMPLICATIONS

3.1. The audit plan consists of 470 audit days including 18 audit days provided to the New Forest National Park Authority under the current Service Level Agreement. The Council's budget for 2021-22 reflects these arrangements.

4. CRIME AND DISORDER IMPLICATIONS

4.1. There are no crime and disorder implications arising directly from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for error and fraud.

5. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

5.1. There are no matters arising directly from this report.

6. RECOMMENDATION

6.1. The Audit Committee note the content of the progress report, attached as Appendix A.

For Further Information Please Contact:
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Background Papers:
Internal Audit Plan 21-22

Appendix A

Internal Audit Progress Report 2021-22

December 2021

New Forest District Council

New Forest
DISTRICT COUNCIL

Southern Internal
Audit Partnership

Assurance through excellence
and innovation

Contents:

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

> ***'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'***

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

> ***'Independent, objective assurance and consulting activity designed to add value and improve an organisations' operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.***

New Forest District Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

Substantial A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

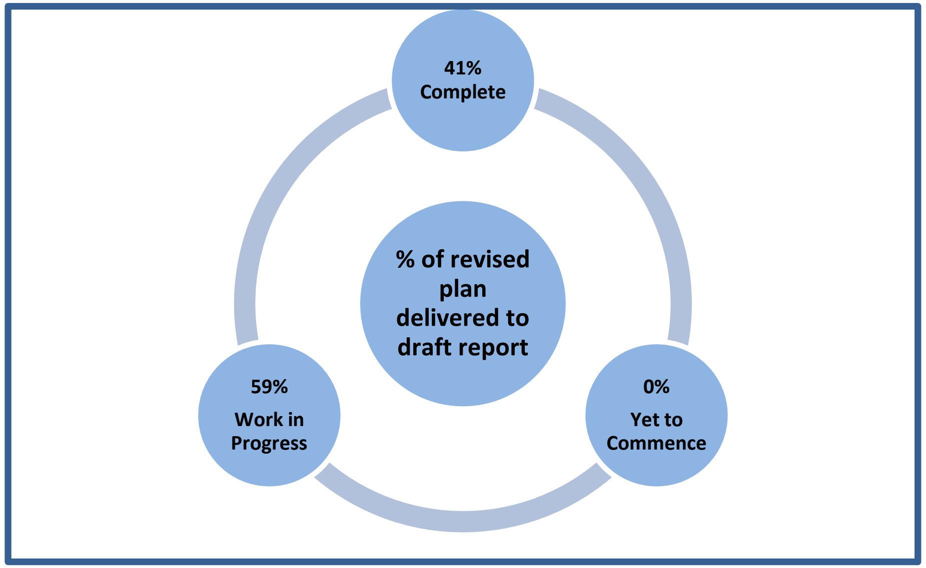
Reasonable There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

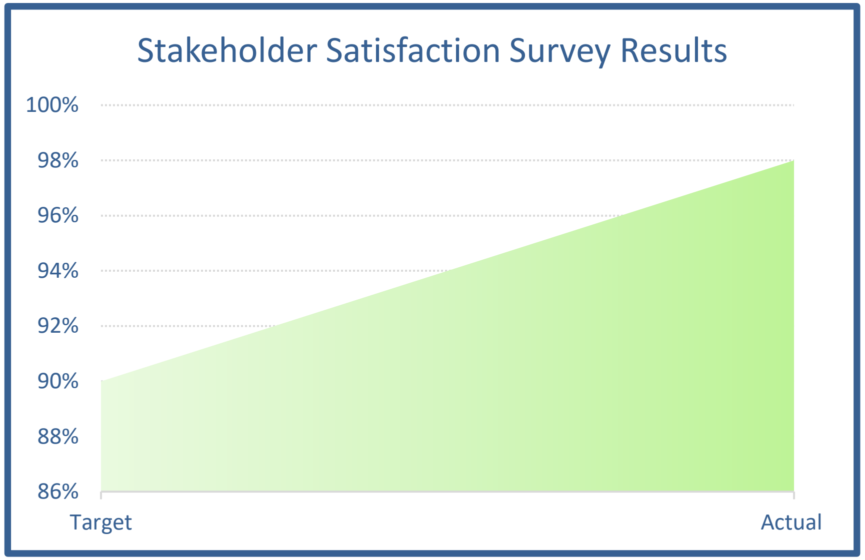
Limited Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

** Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 2.*

3. Performance dashboard





Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the International Professional Practices Framework (IPPF) include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

We are pleased to report that SIAP conform with all relevant, associated elements.'

4. Analysis of 'Live' audit reviews

There are 14 outstanding actions (including four high priority actions) relating to two audits completed by the in-house team prior to the move to SIAP (unchanged from the previous reported position). The current progress to resolve the actions is:-

- Payment Card Industry Data Security Standards (PCI DSS) Compliance. The Council continue to work towards PCI DSS compliance, a project team has been established to explore options to address the issues and Internal Audit are providing advice as required.
- Business Continuity. The HR Service Manager has been tasked with developing a revised business continuity framework and working with each service to assess and document their arrangements. Internal Audit are providing a 'critical friend role' whilst the revised framework it is being developed and will review the arrangements once implemented and embedded.

There are six overdue high priority actions relating to audit reviews completed since the move to SIAP. The status of these actions are:-

- Programme and Project Management. Two officers have been tasked with developing a programme / project management framework and promoting a consistent approach across the Council. It is envisaged that the framework will be live in 2022 and will be followed up by Internal Audit once implemented and embedded.
- Community Safety/CCTV. The overdue high priority action relates to updating policies and operational procedures. The update has been delayed to incorporate technological changes in this area.
- Income Collection and Banking. The two high priority actions also relate to PCI DSS compliance as referred to above.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Programme and Project Management	Nov 19	EHF&CS	Adequate **	9	0	6			3
Community Safety - CCTV	Jun 20	SM (EM&S)	Adequate **	4	0	3			1
Health & Safety *	**Jul 20**	**SM (E&R)**	**Adequate ****	**6**	**0**	**6**			
Housing Finance Management – Tenancies	Feb 21	SM (HO)	Reasonable	7	0	5		2	
Northgate Application Review	Mar 21	SM (ICT)	Reasonable	4	0	3		1	
Accounts Receivable and Debt Management	May 21	SM (R&B)	Reasonable	5	0	4		1	
Contract Management	May 21	SM (L&P)	Reasonable	5	3	1		1	
Accounts Payable *	**May 21**	**SM (R&B)**	**Reasonable**	**2**	**0**	**2**			
Health and Safety (COVID-19)	Jun 21	SM (E&R)	Reasonable	2	0	1		1	
Income Collection and Banking	Jun 21	SM (R&B)	Reasonable	4	0	1	1		2
Payroll Increments	Jun 21	SM (HR)	Limited	13	1	11		1	
Procurement	Jun 21	SM (L&P)	Reasonable	6	1	5			
Main Accounting and Reconciliations	Jun 21	SM (R&B)	Reasonable	3	3	0			
Cyber Security	Jul 21	SM (ICT)	Reasonable	8	0	2		6	
Development Management	Aug 21	EHPR&E	Reasonable	10	1	9			
Additional Restrictions Grants	Sep 21	EHPR&E	Substantial	1	0	0	1		
Coastal Management and Protection	Oct 21	SM (C&PF)	Reasonable	2	2	0			
IT Disaster Recovery Planning & Business Continuity	Nov 21	SM (ICT)	Limited	13	13	0			
Treasury Management	Nov 21	EHF&CS	Substantial	1	0	0	1		
Total							**3**	**13**	**6**

* Denotes audits where all actions have been completed since the last progress report

** The reports listed (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to the adoption of the CIPFA standard definitions, reference is provided at Annex 2.

Audit Sponsor		Audit Sponsor	
Service Manager (Elections & Business Improvement)	SM (E&BI)	Service Manager (Housing Maintenance - Operations)	SM (HMO)
Service Manager (Estates & Valuation)	SM (E&V)	Service Manager (Housing Maintenance – Asset and Compliance)	SM (HMAC)
Service Manager (Human Resources)	SM (HR)	Service Manager (Environmental & Regulation)	SM (E&R)
Service Manager (Legal & Procurement)	SM (L&P)	Service Manager (Health & Leisure)	SM (H&L)
Service Manager (Democratic Services & Member Support)	SM (DS&MS)	Service Manager (Waste & Transport)	SM (W&T)
Service Manager (Estate Management & Support)	SM (EM&S)	Service Manager (Coastal & Public Facilities)	SM (C&PF)
Service Manager (Revenues & Benefits)	SM (R&B)	Service Manager (Open Spaces)	SM (OS)
Service Manager (ICT)	SM (ICT)	Service Manager (Planning Management Development)	SM (PMD)
Senior Manager (Finance)	SM (FIN)	Senior Manager (Grounds & StreetScene)	SM (G&S)
Service Manager (Housing Options)	SM (HO)	Service Manager (Estates, Valuation & Investment Property)	SM (EV&IP)
Executive Head for Planning, Regeneration and the Economy	EHPR&E	Executive Head of Financial and Corporate Services (S151 Officer)	EHF&CS
Executive Head of Partnership and Operations	EHP&O		

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5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

IT Disaster Recovery Planning and Business Continuity				
Audit Sponsor	**Assurance opinion**	**Management Actions**		
Service Manager (ICT)	Limited	Low 0	Medium 11	High 2

Summary of key observations:

The Council have invested in ICT infrastructure and tooling that has provided the Council with the capability to recover services in the event of a disaster however at the time of the review, the audit gave a limited assurance due to the absence of documented procedures for invoking a 'disaster response' and the steps to be followed to reinstate ICT systems.

Following the audit, we understand the team have taken the necessary actions to document the Disaster Recovery Plan and intend to present the plan to the Executive Management Team, by the end of January, in line with the agreed management actions.

6. Planning & Resourcing

The Internal Audit Plan for 2021-22 was agreed by EMT and approved by the Audit Committee in March 2021. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2021-22								
Corporate / Governance Framework								
Energy Management / Climate Emergency / Green Agenda	EHPR&E	✓						Q4
Programme & Project Management	EHF&CS	✓						Q4
Fraud Framework	SM (R&B)	n/a	n/a	✓				
Business Continuity & Emergency Planning	SM (HR)	✓	n/a	✓				Advisory role
Risk Management	SM (FIN)	✓	✓	✓				
Data Breach Investigation	SM (HR)	✓	✓	✓	n/a	Jun 21	n/a	
Human Resources								
HR – Performance Management	SM (HR)	✓	✓	✓				
HR – Use of Agency Staff	SM (HR)	✓						Q4
HR – Leisure Centre due diligence	SM (HR)	✓	✓	✓	Nov 21	Nov 21	Reasonable	
Core Financial Systems								
Financial Stability – Medium Term Financial Planning & Budget Monitoring	EHF&CS	✓	✓	✓	Nov 21			
Housing Benefits	SM (R&B)	✓	✓	✓	Oct 21	Oct 21	Substantial	
Payroll	SM (HR)	✓	✓	✓				
Treasury Management	EHF&CS	✓	✓	✓	Nov 21	Nov 21	Substantial	
Financial Systems – follow-up	SM (R&B)	n/a	n/a	✓				
Grant Certifications								
Additional Restrictions Grants	EHPR&E	✓	n/a	✓	Jul 21	Sep 21	Substantial	
LG Income Compensation Scheme	EHF&CS	n/a	n/a	✓	n/a	Oct 21	n/a	Certification work in phases - final claim completed

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Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Information Technology								
Data Management – Meridio to SharePoint Migration	SM (ICT)	✓	✓	✓	Oct 21	Nov 21	Substantial	
Information Security – Website Phase 2	SM (ICT)	✓	✓	✓				
IT Disaster Recovery Planning & Business Continuity	SM (ICT)	✓	✓	✓	Oct 21	Nov 21	Limited	
PCI DSS Advice	EHF&CS	n/a	n/a	✓				Advisory role
Portfolio Themes								
Housing Rents	SM (HO)	✓	✓	✓	Sep 21	Oct 21	Substantial	
Housing Management – New Homes Strategy	EHPR&E	✓	✓	✓				
Building Control	EHPR&E	✓	✓	✓				
Regeneration / Economic Development	EHPR&E	✓						Q4
Health and Leisure (Mobilisation)	EHP&O	✓	✓	✓	Jul 21	Sep 21	Substantial	
Tree management	SM (G&S)	✓	✓	✓				
Fleet Management (follow-up phase 2)	SM (W&T)	✓						Q4
Environmental Services	EHP&O	✓						Q4
Development Management	SM (HO)	✓	✓	✓	Jul 21	Aug 21	Reasonable	

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
Additional Restrictions Grants *	To provide assurance that appropriate due diligence checks are completed prior to awarding discretionary grants to businesses in line with the published eligibility criteria and amounts. NB unable to undertake in 20-21 therefore carried forward to 21-22 audit plan.
Development Management *	To provide assurance on the end to end planning application process and development management system. NB unable to complete in 20-21 therefore carried forward to 21-22 audit plan.
Housing Rents *	To provide assurance on the systems in place which ensure the Council maximises rental income due from the billing, collection and recovery of rent for Council Housing. NB unable to undertake in 20-21 therefore carried forward to 21-22 audit plan.
Data Breach Investigation *	To provide an independent investigation into two data breaches incurred when responding to two FOI requests in 2018.
HR – Leisure Centre Staff Transfer - due diligence checks *	To provide assurance on the due diligence checks to ensure all necessary information was provided when transferring staff to the new Leisure Centre provider.

Agreed November 2021 *

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Audit reviews removed from the plan (excluded from rolling work programme)	Comment
Universal Credit *	Originally included within the three year audit plan in anticipation this could have an impact upon the Council however there is minimal risk in this area as Universal Credit is administered by the DWP.
Alternative Delivery Methods / Partnership Working *	Removed from the plan as there has been sufficient coverage of alternative delivery methods / significant partnerships in previous years.
Corporate Plan / Performance Management **	The performance management framework, to monitor and report delivery of the corporate plan, has not become fully embedded within service areas therefore defer the review until further progress has been made.

Agreed November 2021 *

Proposed January 2022 **

Annex 2 - Assurance opinions and definitions used by SIAP prior to adoption of the CIPFA standard definitions

As from April 2020 CIPFA guidance recommends a standard set of assurance opinions and supporting definitions for internal audit service providers across the public sector.

To ensure SIAP continue to conform to the best practice principles, the standard definitions were adopted for our 2020-21 work and moving forwards.

There remain some residual reviews detailed within Section 4 of this report that refer to SIAPs former assurance ratings which are detail below.

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
No	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

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AUDIT COMMITTEE – 28 JANUARY 2022

TREASURY MANAGEMENT STRATEGY REPORT 2022/23

1. INTRODUCTION

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

2. POLICIES AND APPROVALS REQUIRED

2.1. Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three year period from 2022/23 to 2024/25. The day to day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.

This report has been prepared prior to the adoption of the Capital Programme for 2022/23 and subsequent years. Therefore, the target indicators may be subject to minor variation. These indicators are targets only and minor adjustments will not be reported.

Any adjustments to the treasury management limits will be reported.

2.2. Treasury Management Investment Strategy

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice 2017 Edition (the CIPFA Code). This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Treasury Management investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This strategy is shown in Annex A in Section 5.

The above policies and parameters provide an approved framework within which officers undertake the day to day treasury activities.

This strategy aims to strike a balance between allowing for current investment levels to continue, whilst also considering the Council's intention to directly invest in both commercial and residential property.

3. ENVIRONMENTAL IMPLICATIONS

3.1. There are no environment implications arising from this report.

4. CRIME AND DISORDER IMPLICATIONS

4.1. There are no crime and disorder implications arising from this report.

5. RECOMMENDATIONS

The Audit Committee is recommended to request Council to approve the key element of this report:

5.1. The Treasury Management Strategy 2022/23 to 2024/25 including the Annual Treasury Management Investment Strategy for 2022/23 (and the remainder for 2021/22) and the Treasury Indicators contained within Annex A.

5.2. That authority is delegated to the Section 151 Officer, who in turn delegates to Hampshire County Council's Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all Council investments (other than the high yield investment portfolio) and borrowing according to the Treasury Management Strategy Statement as appropriate.

TREASURY MANAGEMENT STRATEGY 2022/23 – 2024/25

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2. EXTERNAL CONTEXT

2.1. The following paragraphs explain the economic and financial background against which the TMSS is being set.

2.2. Economic background

The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895bn.

Within this announcement the Monetary Policy Committee (MPC) noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the BoE also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity that the new variant presents, the BoE revised down its estimates for Quarter 4 of 2021 Gross Domestic Product (GDP) growth. The BoE projects that inflation will be higher than previously forecast, with the Consumer Price Index (CPI) likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4%, but notes that Omicron could potentially weaken the demand for labour.

2.3. Credit outlook

Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. CDS prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.

The generally improved economic outlook during 2021 helped UK banks' profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Council's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

2.4. Interest rate forecast

The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in Quarter 1 of 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

3. BALANCE SHEET SUMMARY AND FORECAST

3.1. On 31 December 2021, the Council held £126.8m of borrowing and £89.6m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance Sheet Summary and Forecast	31/03/21 Actual £m	31/03/22 Estimate £m	31/03/23 Forecast £m	31/03/24 Forecast £m	31/03/25 Forecast £m
General Fund CFR	9.6	18.1	29.6	29.9	29.3
Housing Revenue Account CFR	6.0	9.6	19.1	29.9	38.1
HRA Settlement	126.3	122.2	118.1	114.0	109.9
Total CFR	**141.9**	**149.9**	**166.8**	**173.8**	**177.3**
Less: External borrowing *	(126.9)	(122.6)	(118.3)	(114.0)	(109.9)
Internal borrowing	**15.0**	**27.3**	**48.5**	**59.8**	**67.4**
Less: Balance sheet resources:					
- GF Usable reserves	(35.1)	(33.0)	(27.4)	(26.0)	(26.8)
- HRA Usable reserves	(15.7)	(13.5)	(11.2)	(10.7)	(10.0)
- Allowance for working capital	(14.3)	(14.3)	(14.3)	(14.3)	(14.3)
Total balance sheet resources	**(65.1)**	**(60.8)**	**(52.9)**	**(51.0)**	**(51.1)**
New borrowing or (Treasury investments)	**(50.1)**	**(33.5)**	**(4.4)**	**8.8**	**16.3**

* shows only loans to which the Council is committed and excludes optional refinancing

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.3. The General Fund CFR is showing an increase over the period as the Council looks to roll out its commercial and residential investment strategies. The HRA CFR is also increasing as the Council looks to deliver the accelerated housing programme as per the Housing Strategy to 2026. Table 1 demonstrates that the Council will be internally borrowed beyond the resources available for investment. At this point, an external borrowing position potentially sets in. At the appropriate time the Council will consult with its treasury advisors on how best to service its borrowing requirements, including the possibility of renewing maturing loans on the HRA.

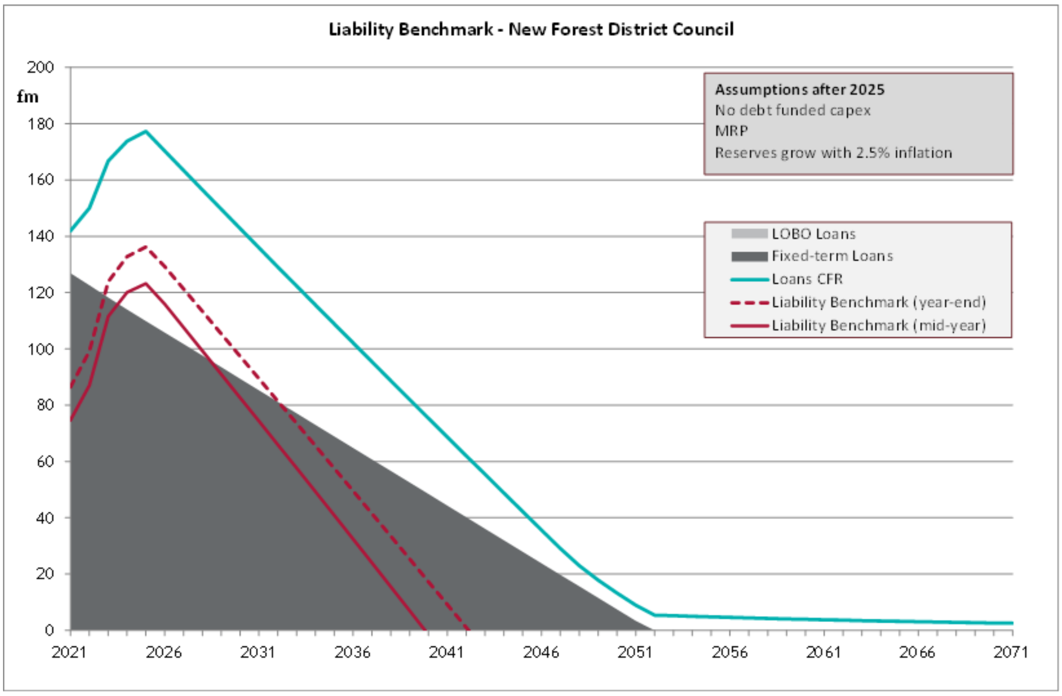
3.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2022/23.

3.5. **Liability benchmark**

To compare the Council's actual borrowing against an alternative strategy, CIPFA requires that a liability benchmark is calculated to show the lowest risk level of borrowing. This assumes the same forecasts as Table 1 but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark	31/03/21 Actual £m	31/03/22 Estimate £m	31/03/23 Forecast £m	31/03/24 Forecast £m	31/03/25 Forecast £m
Total CFR	141.9	149.9	166.8	173.8	177.3
Less: Balance sheet resources	(65.1)	(60.8)	(52.9)	(51.0)	(51.1)
Net loans requirement	**76.8**	**89.1**	**113.9**	**122.8**	**126.2**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**86.8**	**99.1**	**123.9**	**132.8**	**136.2**

At the start of the period, 31 March 2021, the Council had a Total CFR of £141.9m, external borrowing of £126.9m, balance sheet resources of £65.1m and a liability benchmark of £86.8m. The difference of £15.0m between the CFR and external borrowing is internal borrowing which is where the Council has used its own resources to fund its borrowing requirement.



The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The Council expects a positive liability benchmark across the first 21 years of the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.

The chart also shows that until 31 March 2023 it is expected that the external borrowing the Council has already arranged will be sufficient it being above the minimum borrowing requirement, and so the chart indicates that no additional borrowing would be required to cover the initial two years of the forecast. However, Table 1 forecasts treasury investment balances of £4.4m as at 31 March 2023; to meet MiFID II (Markets in Financial Instruments Directive) requirements of retaining professional investor status the Council is required to retain an investment balance of at least £10m, and therefore it is indicated that potentially short term borrowing is required to ensure the investment balances remain above £10m.

Based on current estimates it is also expected that additional external borrowing will however be required between 2023 and 2033. Unfortunately a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon and so as time passes, the requirement to borrow may change and either may not be there for the whole period or alternatively cash flow requirements that are not known about today may become present later which may require the Council to take additional external borrowing in the future.

4. BORROWING STRATEGY

4.1. The Council currently holds £126.8m of loans, a decrease of £4.3m on the previous year, predominantly as a result of the HRA refinancing in 2012. The balance sheet forecast in Table 1 shows that there is expected to be a small investment balance of £4.4m as at 31 March 2023. There may be a requirement to borrow during 2022/23 subject to unknown cashflow requirements, ensuring that investment balances remain above £10m. Any additional borrowing will be considered during the year in light of the cash balances. The Council may also borrow to pre-fund future years’ requirements, providing this does not exceed the authorised limit for borrowing of £219.1m.

4.2. Objectives

The Council’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long-term plans change is a secondary objective.

4.3. Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use internal resources where possible or to borrow short-term loans to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

By internally borrowing, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future costs low, even if this causes additional cost in the short-term.

The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. The Council may take the decision to retain the level of current borrowing attributed to the Housing Revenue Account to meet forthcoming pressures related to maintenance and building requirements. The level of borrowing could be retained through rearranging PWLB loans on maturity.

Alternatively, the Council may also arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

4.4. Sources of borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments

- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.5. Other sources of debt finance

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.6. Short-term and variable rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises, which is monitored through the indicator on interest rate exposure in the treasury management indicators below.

4.7. Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. Currently the cost of premiums charged by the PWLB for repaying loans prior to maturity outweighs the cost of repaying at maturity.

5. TREASURY INVESTMENT STRATEGY

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £48.0m and £105.4m, and balances are expected to reduce over the forthcoming year due to internal borrowing in relation to the capital programme.

5.2. Objectives

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3. Negative interest rates

The COVID-19 pandemic increased the risk that the Bank of England would set its Bank Rate at or below zero, which would likely to have fed through to negative interest rates on all low risk, short-term investment options, and in some instances negative interest rates were being seen. As the Bank of England has started to raise Bank Rates this eventuality is now not an immediate concern, however in the event of negative rates, since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.4. Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

At 31 December 2021 approximately 66% of the Council's investment balances were invested so that they were not subject to bail-in risk, as they were invested in Government investments, pooled property, equity and multi-asset funds, and secured bank bonds. Of the 34% of investment balances that were subject to bail-in risk, 42% were held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and 29% were held in overnight bank call accounts for liquidity purposes. In addition 19% of investment balances held subject to bail-in risk were held in very short term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 100-day maximum recommended by Arlingclose and the remainder were invested in short term certificates of deposit which are saleable.

Unfortunately, the availability of appropriate longer term investment opportunities has been reduced in comparison to previous years due to an uncertain economic market, very low interest rates and the local authority market has been much reduced due to the amount of funding that has been supplied to the sector from Central Government in relation to the pandemic.

The Council made a payment of £3.717m on 1 April 2021 to prepay its employer's LGPS pension contributions for one year. By making this payment in advance the Council was able to generate an estimated saving of £0.080m over the year on its pension contributions. Subject to any unforeseen cash flow requirements the Council plans to prepay its employer's LGPS pension contributions for one year again on 1 April 2022 to generate a similar level of saving over 2022/23.

Further detail is provided at Appendix B.

5.5. Business models

Under the new IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. Investments targeting higher returns

In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest a proportion of steady core balances in externally managed pooled funds, investing in pooled property, equity and multi-asset funds, as part of its higher yielding strategy. This allows diversification into asset classes other than cash without the need to own and manage the underlying assets.

The funds operate on a variable net asset value (VNAV) basis and offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer the potential for enhanced returns over the longer term but are likely to be more volatile in the short-term. All of the Council's pooled fund investments are in the funds' distributing share classes which pay out the income generated.

The CIPFA Code requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the Council's investments.

The Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. This recovery means these investments are now worth more in aggregate than the initial sums invested, as shown in Table 3, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the Council is not a forced seller at the bottom of the market.

Table 3: Higher yielding investments - market value performance	Amount invested	Market value at 31/12/2021	Gain/fall in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	7.6	8.2	0.6	0.8
Pooled equity funds	3.0	3.3	0.3	0.4
Pooled multi asset funds	3.0	3.0	-	0.0
Total	**13.6**	**14.5**	**0.9**	**1.2**

Money can usually be redeemed from pooled funds at short notice however these investments must be viewed as long-term investments from core balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the Council will not be a forced seller and will not crystalise capital losses.

The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

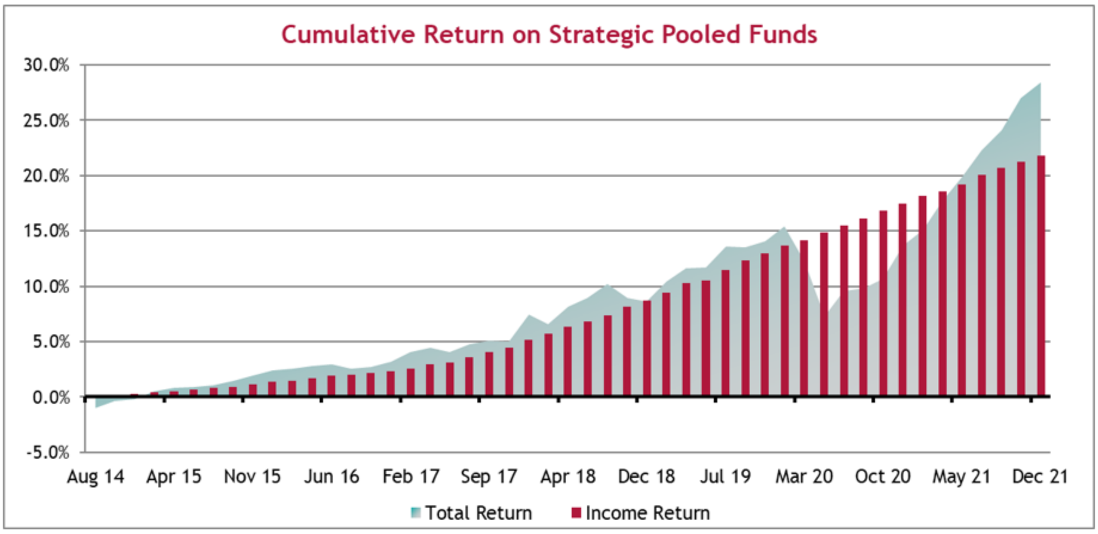
The Council's long-term investments in pooled funds are expected to bring benefits to the revenue budget through higher yields than can be achieved on cash investments. As shown in Table 4, without the allocation to pooled funds the weighted average return of the Council's cash investments would have been 0.11%. By investing in pooled funds, the weighted average return at 31 December 2021 was 0.71%, meaning the allocation to higher yielding investments has added 0.60% to the average interest rate earned by the remainder of the portfolio.

This benefit to the revenue budget is demonstrated in Table 4, using cash balances and average returns at 31 December 2021. It should be noted however that this is a snapshot at a particular point in time and balances and returns do not remain constant over the course of a year.

Table 4: Estimated annual income returns	Cash balance at 31/12/2021 £m	Weighted average return %	Estimated annual income return £m
Short-term and long-term cash investments	75.9	0.11	0.08
Investments targeting higher yields	13.6	4.09	0.55
Total	**89.5**	**0.71**	**0.63**

The performance of these investments and their suitability in meeting the Council's objectives are monitored regularly and discussed with Arlingclose.

The cumulative total return from the Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the graph below. This highlights that despite volatility in the capital value of the funds over 2021, these pooled funds have delivered strong and steady income returns and a positive capital increase to date.



5.7. Investment limits

The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 5.

Table 5: Investment limits	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£25m per manager

5.8. Approved counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown.

Table 6: Sector and counterparty limits			
Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers	5 years	£5m	£10m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£5m	£10m

This table must be read in conjunction with the notes below

5.9. * Minimum credit rating

Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

5.10. Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

5.11. Secured investments

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

5.12. Banks and building societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.13. Registered providers (unsecured)

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.14. Money market funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.15. Strategic pooled funds

Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.16. Real estate investment trusts (REITs)

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

5.17. Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

5.18. Operational bank accounts

The Council may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Council's operational bank account is with Lloyds and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.19. Risk assessment and credit ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.20. Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

5.21. Liquidity management

The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

6. TREASURY MANAGEMENT INDICATORS

6.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

6.2. Interest rate exposures

The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 7: Interest rate risk indicator	31 December 2021 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	89.5	+/- 0.9
Borrowing	(0.0)	+/-0.0

6.3. Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 8: Refinancing rate risk indicator	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.4. Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 9: Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond a year	£35m	£30m	£25m

7. RELATED MATTERS

7.1. The CIPFA Code requires the Council to include the following in its TMSS.

7.2. Financial derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.3. Housing Revenue Account

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the average % Local Authority 7 day rate.

7.4. Markets in Financial Instruments Directive

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the s151 Officer believes this is the most appropriate status.

8. Financial Implications

The budget for investment income in 2022/23 is £658,000, whilst the budget for debt interest paid in 2022/23 is £4.124m, based on an average debt portfolio of £124m at an average interest rate of 3.32%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

9. Other Options Considered

7.5. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 10.

Table 10: Alternative strategies and their implications		
Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Table 10: Alternative strategies and their implications		
Alternative	**Impact on income and expenditure**	**Impact on risk management**
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2021

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official Gross Domestic Product (GDP) data indicates that growth was weakening into Quarter 4 of 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The Consumer Price Index (CPI) rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the Monetary Policy Committee (MPC) to raise Bank Rate to 0.25% at the December 2021 meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – activity for Quarter 4 of 2021 and Quarter 1 of 2022 could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the Bank of England (BoE) and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Quarter 1 of 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.

- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position at 31 December 2021

Treasury investment position

Investments	30/09/2021 Balance £m	Net movement £m	31/12/2021 Balance £m	31/12/2021 Income return %	31/12/2021 Weighted average maturity years
Short term Investments					
Banks and building societies:					
- Unsecured	13.8	4.0	17.8	0.05	0.06
- Secured	17.8	4.7	22.5	0.10	0.53
Money Market Funds	15.3	(4.6)	10.7	0.04	0.01
Government:					
- Local authorities	4.5	2.5	7.0	0.09	0.48
- UK Treasury bills	-	3.0	3.0	0.20	0.34
- Supranational banks	3.0	3.9	6.9	0.12	0.63
Cash plus funds	2.0	-	2.0	0.55	0.02
	56.4	**13.5**	**69.9**	**0.10**	**0.29**
Long term investments					
Banks and building societies:					
- Secured	3.0	3.0	6.0	0.25	1.17
Government:					
- Supranational banks	3.9	(3.9)	**-**	**-**	**-**
	6.9	**(0.9)**	**6.0**	**0.25**	**1.17**
Long term investments - higher yielding strategy					
Pooled funds:					
- Pooled property*	7.6	-	7.6	3.79	N/A
- Pooled equity*	3.0	-	3.0	5.06	N/A
- Pooled multi-asset*	3.0	-	3.0	3.88	N/A
	13.6	**-**	**13.6**	**4.09**	**N/A**
TOTAL INVESTMENTS	**76.9**	**12.6**	**89.5**	**0.71**	**0.38**

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2021 based on the market value of investments 12 months earlier.

Treasury management Position	31/12/2021 Balance £m	31/12/2021 Rate %
External Borrowing		
- PWLB	(126.8)	(3.29)
Investments		
- Total Investments	89.5	0.71
Net Debt	**(37.3)**	

AUDIT COMMITTEE – 28 JANUARY 2022

INVESTMENT STRATEGY 2022/23

1. RECOMMENDATIONS

1.1. The Audit Committee is recommended to request Council approve the Investment Strategy 2022/23.

2. INTRODUCTION

2.1. The Council currently holds, and intends to increase, its exposure in a variety of Investments held in part for the purpose of generating additional income to the Council.

2.2. By producing this strategy report, the Council is following statutory guidance issued by the Government in January 2018.

3. OVERVIEW OF WHAT IS INCLUDED IN THE INVESTMENT STRATEGY

3.1. **Treasury Management Investments**

The Investment Strategy has regard to the Treasury Management Strategy, which sets out in detail how the Council's treasury service will invest surplus cash, taking into consideration the requirements of the Council's capital programme, and other financing needs. The balance of treasury management investments fluctuates and can exceed £100m at given points during a fiscal period.

3.2. **Property Investments**

The Property investments section of the strategy brings together properties which have been in NFDC ownership for several years, as well as the accumulation of property investment strategies that have been adopted more recently by this Council. Although the primary purpose of these adopted strategies is to support the economic sustainability and regeneration within the District and provide additional housing to support New Forest residents and communities, the strategies also generate a revenue return, hence being prevalent to this investment strategy.

The strategy considers the contribution made by these investments, the security, the risk assessment process and liquidity.

The strategy sets out various performance indicators, designed to assist readers understand the implications of the Council's investing activities on the general fund, and the forecast yields expected from the differing investment categories.

4. ENVIRONMENTAL / CRIME AND DISORDER IMPLICATIONS

4.1. There are no implications arising from this report.

For Further Information Please Contact:	**Background Papers:**
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APPENDIX 1

Investment Strategy 2022/23

1.0 Introduction

The Authority invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to invest in a sustainable and vibrant New Forest Economy supporting employment and industry; investment income is also earned (known as **property investments**).

This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018, and predominately focuses on the second of these categories.

2.0 Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments fluctuates and in the 6 months between April – September 2021, the Council's investment balance has ranged between £50.4m and £97.0m.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in a separate document; the Treasury Management Strategy.

3.0 Property Investments

Contribution: The Council invests in commercial and residential property with the intention of supporting the New Forest economy and community and returning a net income that will be spent on local public services. The Council has established a £30m fund for the purposes of investment in commercial property, inside or within areas immediately adjacent to, the District boundary, and a £10m fund exists for investment in residential property, inside or within areas immediately adjacent to the District boundary. Both funds have been established to support the local New Forest economy and community and both also have the intention of generating an income return.

The Council can own commercial property directly and has established a wholly owned group of companies for the purposes of investment in residential property. The Council intends to make equity investments into the group of companies and issue loans, on the latter of which the Council will receive interest payments. Both strategies have socio-economic benefits, such as stimulation of local economies through investment in commercial premises and growth in the supply of housing throughout the District.

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Three out of the nine investment properties owned by this Council as at 31/03/21 have been in the Council's ownership for well over a decade. The first acquisition under the Council Commercial Property Investment Strategy was completed in December 2017, two acquisitions were completed in 2019/20 and three acquisitions were made in 2020/21 and 2021/22.

The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans in £millions

Category of borrower	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	1.528	0.000	1.528	8.000
TOTAL	**1.528**	**0.000**	**1.528**	**8.000**

Table 2: Shares in £millions

Category of company	31.3.2021 actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	0.569	-0.021	0.548	4.000
TOTAL	**0.569**	**-0.021**	**0.548**	**4.000**

The figures as included in tables 1 and 2 above are in relation to the wholly owned group of housing companies. The total initial investment made up of debt and equity is to total £10m. The mix of debt and equity will be fluid, and so for the purposes of setting individual limits, the potential maximum in each instance has been shown hence equating to more than £10m.

Table 3: Commercial Property held generating income in £millions

Property	31.3.20	31.3.2021 actual			2021/22
	Value in Accounts	Gains or (losses)	Additions or (Disposals)	Value in accounts	Additions to date
Hythe Marina	2.696	(0.161)		2.535	
Hardley Industrial Estate	3.426	0.439		3.865	
New Forest Enterprise Centre	0.775			0.775	
New Milton Health Centre	2.331	0.212		2.543	
Land at Beaumont Park Ringwood	2.010			2.010	3.200
Ampress Car Park	2.100	0.023		2.123	
The Parade, Salisbury Road Totton		(0.022)	1.450	1.428	
Queensway, New Milton		(0.217)	1.100	0.883	
Unit 1 Nova Business Park, New Milton		0.008	0.530	0.538	
Drive Thru, Salisbury Road Totton					1.321
27 Salisbury Road, Totton					1.949
TOTAL	**13.338**	**0.282**	**3.080**	**16.700**	**6.470**

Note: The table above includes material properties denoted in the accounts as Other Land & Buildings (not used operationally by the Council) and Investment Properties, to reflect different statutory accounting definitions of these assets which all have a wider socio-economic purpose.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments. Market research is undertaken regularly, and potential opportunities objectively evaluated by the in-house estates team, utilising external expertise as and when necessary.

The Authority assesses the risk of loss in its residential holdings before entering into and whilst holding loans through regular communication via the board of directors and the Council. The board has the freedom to engage with specialist consultants as and when required.

Purchases of properties and development opportunities are only completed once a full business case has been prepared and signed off by the investment panel, or board, or by the Council if above delegated financial parameters.

Liquidity: Compared with other investment types, property can be relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council will ensure to keep suitable minimum cash balances available, for example to repay capital borrowed.

4.0 Proportionality

The Council is expecting investment activity to assist in achieving a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium -Term Financial Plan. Should it fail to achieve the expected net profit, the Council will continually review and evaluate its services, and their delivery models, ensuring the most efficient service is provided to the residents of the New Forest. Prudent use of reserves can also be considered as a suitable contingency plan for continuing to provide these services in the short term.

Table 4: Proportionality of non-treasury Investments (£millions)

	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget
Gross service expenditure	42.000	42.000	42.000	42.000	42.000
Investment income	0.841	1.067	1.502	1.799	2.098
Proportion	2.0%	2.5%	3.6%	4.3%	5.0%

5.0 Capacity, Skills and Culture

Elected members and statutory officers:

Commercial Property investments are made pursuant to the Asset Investment Strategy approved by the Council in 2017. An experienced team formed from the Council's finance, estates and valuation and legal departments prepare initial assessments and recommendations concerning suitable properties. Prior to entry into a bidding process, approval must be secured from the Portfolio Holder: Finance, Investment and Corporate Services, the Executive Head of Governance and Regulation and the s151 Officer. Prior to entry into binding legal agreements, final approval must be secured from the Chief Executive, the Executive Head of Governance and Regulation and the s151 Officer in consultation with the Portfolio Holder: Finance, Investment and Corporate Services and the Chairman of the Corporate Overview and Scrutiny Panel for transactions up to £5m, and the approval of Cabinet for transactions above £5m. This detailed process of scrutiny and decision making by key senior officers and members ensures the strategic objectives, risk profiles and overall risk exposure for the Council are considered and fully understood.

Commercial deals:

The Cabinet report dated 20th February 2017 is clear (at para 3.8) the Council will take a prudent approach to the management of financial risk and the assessment of possible investments. The criteria for selecting investment assets set out in the Asset Investment Strategy and the steps for selecting assets set out above accord with prudent investment principles and the key decision makers, including the S151 Officer, are involved in the process to ensure compliance.

Corporate governance:

The Asset Investment Strategy makes express reference (at para 2.1) to the Council's Corporate Plan 2016 – 2020 and was prepared in the context of seeking to deliver on those priorities. The objectives remain valid in the context of the updated Community Matters Corporate Plan 2020 – 2024. The process for selecting assets is set out above to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

6.0 Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Budget	31.03.2024 Budget	31.03.2025 Budget
Pooled Fund T M investments	13.60	13.60	10.00	10.00	10.00
Other T M investments	36.30	20.0	0.10	0.20	0.10
Subsidiary investments: Loans	1.53	3.41	5.12	7.53	7.53
Subsidiary investments: Shares	0.54	1.14	1.67	2.40	2.40
Direct investments: Property	16.70	23.17	35.77	36.02	36.02
TOTAL INVESTMENTS	**68.67**	**61.31**	**52.65**	**56.14**	**56.04**
Commitments to lend		-	-	-	-
Guarantees issued on loans		-	-	-	-
TOTAL EXPOSURE	**68.67**	**61.31**	**52.65**	**56.14**	**56.04**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments can be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

All investments made to date, up to and including purchases made in 2021/22 are funded through internal borrowing. Internal borrowing is also forecast to be the source of finance for acquisitions during 2022/23.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Budget	31.03.2024 Budget	31.03.2025 Budget
Subsidiary investments: Loans	1.53	3.41	5.12	7.53	7.53
Direct investments: Property	7.62	12.79	22.87	23.07	23.07
TOTAL FUNDED BY BORROWING	**9.14**	**16.20**	**27.99**	**30.60**	**30.60**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of external borrowing where appropriate, as a proportion of the sum initially invested.

Table 7: Investment rate of return (net of costs)

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget
Treasury management investments	1.73%	1.00%	2.50%	3.00%	3.00%
Subsidiary investments: Residential	1.62%	2.21%	2.67%	2.90%	3.83%
Direct investments: Property	4.83%	4.17%	3.69%	4.19%	4.77%

Notes to table 7:

As cash balances reduce, the overall TM investment earnings in £000’s will reduce, however, the funds that are held by the Council will represent required minimum balances, and will continue to be placed within medium-longer term strategic funds, which are higher yielding, hence the forward looking % rate of return increase in comparison to 2021/22.

So as to not distort the annual percentages, investment purchases are assumed to take effect on the first day of a financial year. The reduction in the rate of return for Commercial Property is due to the incurrence of capital expenditure, principally at Crow Lane, in advance of rental income being received.

As already outlined, the authority does not associate direct borrowing with individual assets. Borrowing will be incurred in the overall context of the Capital Financing Requirement and cash balances.

EMT – DECEMBER/JANUARY 2022
AUDIT COMMITTEE – 28 JANUARY 2022

PORTFOLIO: FINANCE, INVESTMENT & CORPORATE SERVICES / ALL

AUDITOR APPOINTMENT 2023/24 – 2027/28

1. Purpose of the Report

1.1 This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24

2. Background & Summary Information

2.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The Council has three options;

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

2.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

2.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. All local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join the national collective scheme administered by PSAA.

2.4 The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and

- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

2.5 If the Council wishes to utilise the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period has started and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

3. The Appointed Auditor

3.1 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

3.2 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

3.3 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

3.4 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

3.5 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

4. Appointment by the Council itself or jointly

4.1 The Council may elect to appoint its own external auditor under the Act, which would require the council to;

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

- Manage the contract for its duration, overseen by the Auditor Panel.

4.2 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act.

4.3 When canvassed for views during December, the majority of Section 151 Officers across Hampshire confirmed they would be signing up to the national auditor appointment scheme.

5. The National Auditor Appointment Scheme

5.1 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

5.2 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;

- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;

- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;

- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;

- minimising the scheme management costs and returning any surpluses to scheme members;

- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;

- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and

- ongoing contract and performance management of the contracts once these have been let.

6. Pressures in the current local audit market and delays in issuing opinions

6.1 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme which attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

6.2 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

6.3 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

6.4 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.

6.5 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

7. The next audit procurement

7.1 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;

- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);

- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members (in 2019 it returned £5,170 to NFDC and in 2021 a further £8,430 was returned).

7.2 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

7.3 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office)[1], the format of the financial statements (specified by CIPFA / Local Authority (Scotland) Accounts Advisory Committee) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

7.4 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

8. Financial Implications

8.1 Current external audit fee levels are likely to increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

8.2 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

[1] Live proposal that overarching responsibility for Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

8.3 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional financial resource may be required for audit fees from 2023/24.

9. Recommendations

9.1 That the Audit Committee recommends to Council that NFDC accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

9.2 That following Council approval, the Council's Section 151 Officer return the necessary invitation acceptance forms in line with the deadline of the 11th March 2022.

For Further Information Please Contact:
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Audit Committee Work Plan 2022/23

DATE	WORK / REPORTS
25 March 2022	Annual Audit Letter for the year ended 31 March 2021 Internal Audit Progress Report 2021/22 Internal Audit Charter 2022/23 Internal Audit Plan 2022/23 Annual Financial Report and External Audit Cycle 2021/22 and 2022/23
25 July 2022	Annual Internal Audit Report and Opinion 2021-22
30 September 2022	Internal Audit Progress Report 2022-23
27 January 2023	Internal Audit Progress Report 2022-23
24 March 2023	Internal Audit Progress Report 2022-23 Internal Audit Charter 2023-24 Internal Audit Plan 2023-24

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