New Forest
DISTRICT COUNCIL

NOTICE OF MEETING

Meeting:	**AUDIT COMMITTEE**
Date and Time:	**FRIDAY, 29 JULY 2022, AT 9.30 AM***
Place:	**BRADBURY ROOM - 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, 26 July 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. MINUTES

To confirm the minutes of the meeting held on 31 May 2022 as a correct record.

2. 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.

3. **PUBLIC PARTICIPATION**

To note any issues raised during the public participation period.

4. **EXTERNAL AUDITOR'S ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2021** (Pages 5 - 40)

To receive the External Auditor's Annual Report for the year ended 31 March 2021.

5. **EXTERNAL AUDIT OUTLINE AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2022 (21/22)** (Pages 41 - 58)

To receive the External Audit Planning Report for the year ended 31 March 2022 (21/22).

6. **DRAFT ANNUAL FINANCIAL REPORT 2021/22** (Pages 59 - 72)

To consider the Draft Annual Financial Report for 2021/22.

7. **TREASURY MANAGEMENT ANNUAL OUTTURN REPORT FOR 2021/22** (Pages 73 - 88)

To consider the Treasury Management Outturn Report for 2021/22.

8. **FINAL ACCOUNTS 2021/22 BAD DEBTS WRITE-OFF** (Pages 89 - 96)

To receive the Annual Bad Debt Write Off's Report 2021/22.

9. **FRAUD - ANNUAL REPORT 2021/22** (Pages 97 - 100)

To note the Annual Fraud Report for 2021/22.

10. **CIPFA FINANCIAL MANAGEMENT CODE: ASSESSMENT OF COMPLIANCE** (Pages 101 - 116)

To receive an Assessment against the Financial Code (Consultation version).

11. **UPDATED RISK MANAGEMENT POLICY AND STRATEGIC RISK REGISTER** (Pages 117 - 138)

To receive an updated Risk Management Policy and Strategic Risk Register.

12. **INTERNAL AUDIT PROGRESS REPORT** (Pages 139 - 154)

To receive the Internal Audit Progress Report.

13. **AUDIT COMMITTEE WORK PLAN** (Pages 155 - 156)

To consider the Audit Committee's Work Plan.

14. **WORK PROGRAMME**

To note the Committee's Work Programme.

15. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

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

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New Forest District Council

Auditor’s Annual Report
Year ended 31 March 2021

27 June 2022

EY
Building a better working world

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 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 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.
Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Authority's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 4 May 2022
Going concern	We concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	We concluded that other information in the Annual Financial Report 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We have had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 17 January 2022 and presented this to the Council at its Audit Committee meeting on 28 January 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been 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.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Executive Head of Financial & Corporate Services. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Planning Report that we issued on 7 July 2021 and presented to the Audit Committee. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

We have issued an unqualified audit opinion on the Authority and Group 2020/21 financial statements.

Key issues

The Council's Annual Financial Report is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 4 May 2022, we issued an unqualified opinion on the Authority and Group financial statements. We reported our detailed findings to the Council at their Audit Committee meeting on 28 January 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls 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.	We did not identify any material weaknesses in controls or evidence of material management override. We did not identify 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 did not identify any unusual or unsupported journals, or other adjustments made in preparing the financial statements.
Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure 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.	We did not identify 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 did not identify 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.

Financial Statement Audit – New Forest District Council (continued)

Significant risk	Conclusion
Valuation of Land & Buildings (EUV/FV) including Investment Property 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.	We identified 1 misstatement in relation to the valuation of Salisbury Road Parade. We assessed the value to be overstated as the yield was considered to be too low, and no purchasers costs were included in the valuation. However, we considered the valuation of PPE as a whole to be materially correct. The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued. We considered the useful economic lives of the assets to be reasonable and all accounting entries were correctly processed in the financial statements.
New Financial Ledger 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 was 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.	We did not identify 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

Financial Statement Audit – New Forest District Council (continued)

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges 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.	We considered the Council's process for completing the grant return to Central Government was reasonable and appropriate. We did not identify any instances of inappropriate judgements being applied, the guidance was followed and supported by relevant and appropriate evidence. We confirmed the grant was correctly accounted for in the financial statements.

Other area of audit focus	Conclusion
Valuation of Land and Buildings (DRC) 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.	Our testing identified no material misstatements. Assets have been revalued within a 5 year cycle, and assets not revalued in year were considered to be materially correct. We did not identify any instances of inappropriate judgements being applied.
Valuation of Council Dwellings 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.	Our testing 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 did not identify any instances of inappropriate judgements being applied.

Financial Statement Audit – New Forest District Council (continued)

Other area of audit focus	Conclusion
Pension liability valuation The Code of Practice on Local Authority Accounting and IAS19 require 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 deficit is a material and sensitive item and the Code requires that this liability 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.	Our testing has identified no material misstatements. We 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. We 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 confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.
Accounting for Covid-19 related government grants 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 needed to review each of these to establish how they needed to be accounted for. It needed 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 needed to assess whether there were any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.	We requested the Council amend one grant to be classed as principal rather than agent. This amendment added £3.0m to both income and expenditure in the cost of services. For all other grants we agreed with the assessment made and the subsequent disclosure in the accounts.

Financial Statement Audit – New Forest District Council (continued)

Other area of audit focus	Conclusion
Group Accounts Preparation For the first time, the council 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.	Within the published set of draft 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. These items were corrected in the final version of the accounts.

Financial Statement Audit – New Forest District Council (continued)

Audit differences

We identified a number of misstatements in disclosures which management corrected including in the preparation of the group accounts.

We report any corrected misstatements greater than our performance materiality of £1.78m. There was one corrected misstatement in this regard:

Covid-19 grant income and expenditure to be classed as principal rather than agent, adjusted as follows:
- Expenditure £3.0m
- Grants credited to cost of services (£3.0m)

We report any uncorrected misstatements greater than our nominal value of £123k. There was one uncorrected misstatements to bring to your attention:

- PPE Valuation (Salisbury Road Parade) judgemental misstatement (overstatement) of £0.153m

As this 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.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.37m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Council all audit differences in excess of £123,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code of Audit Practice and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 28 January 2022 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of the Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in May 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we have no matters to report by exception in our audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

This included pressures created by the pandemic

Financial sustainability

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

New Forest District Council has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures. We note that following the impacts of Covid-19, an emergency budget was released in response. The Council was required to put in place short and medium term places in order to response to the increased financial pressures and take into account the additional Government support that was to be provided. Prior to the Covid-19 pandemic, the Council had already identified budgetary pressures to be addressed, due to the reducing levels of Central Government funding. The Council has looked to increase its levels of income generation in response to this, which at the same time meets the service needs of the District. Responses have included an increase in the number of investment properties and the creation of a wholly owned housing company.

Regular meetings are held, and minutes are available on the Council's website showing their review of financial pressures. A risk register is kept and updated annually by portfolio, which includes the potential impacts on the Council and actions to mitigate those risks. Significant risks identified include Covid-19 uncertainties and the one year financial settlement from Government. These are mitigated through regular financial monitoring and robust budgeting arrangements.

Financial sustainability (continued)

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing though the 'Public Works Loan Board' (PWLB). New Forest District Council have not however used this approach to finance any capital or commercial programmes. In 2012/13 the Council borrowed £142.7 million from the PWLB for the Housing Revenue Account financing settlement. This is being paid down in instalments and the outstanding balance currently stands at £126.9m of which £4.3m is due to be repaid in the coming year (consistent with the prior year).

New Forest District Council has developed a small portfolio of investment properties, and has established a housing company in order to generate a return on cash at greater levels than current bank rates. However, they have not pursued investments in other riskier commercial ventures.

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/21:

Significant account	Balance	Description of asset
Investment property	£12.4m	The council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices and retail. The investment properties that would be considered the higher risk would be retail assets which stands at: • Retail - £1.4m
Long term investment	£17.1m	Includes a £0.6m investment in wholly owned housing company, £7.5m in pooled property funds and £6.0m in Money Market Funds
Short term investment	£25.0m	All ST investments held as bonds or short term fixed interest deposits with either banks or other Local Authorities

We do not consider the above investments to be unusual for a Local Government body and not indicative of a higher risk profile. The Council sets out its investment strategy annually, which sets out the aims and objectives of the investment, namely helping supporting the New Forest economy and community and making a profit that will be spent on local public services. There are approved limits (£30m Investment properties, £10m Housing Company) on spending which has been agreed as set out in the strategy. All spending has been funded by internal borrowing.

The original 20/21 budget was superseded by an emergency budget in year as the impacts of Covid-19 and subsequent lockdowns unfolded. The budget for 21/22 and the Medium Term Financial Plan for 21/22 onwards have since incorporated these Covid-19 pressures and factored in Central Government's C-19 grants which have help to alleviate the pressures on the Council.

Financial sustainability (continued)

The Council have not flagged a material uncertainty in the going concern basis of preparation disclosure in its financial statements around its ability to continue providing the current level of services, this has been supported within the Going Concern note itself as well as their submitted cashflow forecast to end of April 2023.

The annual budget for 21/22 and Medium Term Financial plan take into account the continued financial pressures but also the support provided by central government in relation to Covid-19. The Council tax increase of 2.8% is also accounted for, as well as the ongoing analysis for savings measures which is required in order to balance the budget in the medium to long term.

For Interest Rates and Investments and Borrowing the Council has a Treasury Management strategy. Regular monitoring reports keep track of Treasury performance. The management strategy confirms the changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, but the Borrowing Strategy confirms the Council has no such plans.

The Council also has a strategic risk register, which includes documenting financing pressures. Financial uncertainty arising from ongoing COVID-19 crisis and one year only financial settlement is noted as a high risk, but current controls including Robust financial monitoring and reporting arrangements, prudent financial planning, government grants/support are noted to keep this risk below a Red rating.

<u>How the body plans to bridge its funding gaps and identifies achievable savings</u>

The 2020/21 Narrative Report in the Annual Financial Report notes the following in relation to potential funding gaps:

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.

The Council maintains the General Fund Reserve at £3m. There are also a number of earmarked reserves with a total balance of £31.7m (at 31/3/21) to meet specific liabilities when they fall due.

Financial sustainability (continued)

The Council set a balanced budget for 20/21 and more recently for 21/22. For 21/22 this was balanced budget was achieved through utilising £138k from Budget Equalisation Reserves, and through a Band D Council Tax increase of £5 (2.8%). At year end 20/21 the Council performed better than expected against budget due to additional Central Govt. Covid-19 grants, which more than offset negative variations to budget. However, this is not expected to be a continuing trend.

In future years, as per the MTFP, there are additional budget shortfalls totalling £2.9m which are expected to be mitigated through:

- successful implementation of the commercial and residential property strategies to bring valuable new sources of additional income into the Council,
- successful implementation and delivery of savings targeted from reviews underway,
- successful identification of further efficiencies to be identified during 2021/22 to take effect over the medium term,
- Council's ability to maximise its revenues through local taxation; and
- prudent use of budget equalisation reserves

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

The annual budget and MTFS sit alongside and facilitate the Council's Corporate Plan for 2020-24. The Council Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve, split into the following portfolio areas:

- CP1 - Leader and Corporate Affairs - 'Delivering a prosperous New Forest and putting our community first'
- CP2 - Planning and Infrastructure - 'Encouraging development that meets local needs and enhances the special qualities of the environment'
- CP3 – Housing Services - 'Creating balanced communities and housing options that are affordable and sustainable'
- CP4 - Community Affairs - 'Keeping our communities safe and listening to their needs'

Financial sustainability (continued)

- CP5 - Finance, Investment and Corporate Services - 'Enabling service provision and ensuring value for money for the council tax payer'
- CP6 – Leisure and Wellbeing - 'Improving the health and wellbeing of our community'
- CP7 - Environment and Regulatory Services - 'Working to tackle climate change and enhancing our special environment'
- CP8 – Economic Development - 'Helping local businesses to grow and prosper'

The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of NFDC, with priorities being outlined for each of the service lines.

The process of preparing the budget beings with using approved MTFP and updating with more detailed information as this becomes known. The financial and delivery performance against the Corporate plan priorities is performed quarterly. This document also provides monitoring of the overall financial performance against budget, Capital spend and project management reports. Where this performance information suggests a financial impact this is reflected within the proposed budget.

<u>How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system</u>

Also see the commentary against sub-criteria 1. above for how the MTFP and budget is derived. An example of the other plans being incorporated into budgets is evidence by the HRA budget for 20-21. This budget includes details of the HRA capital programme, with increases of £13m in the development strategy to be invested in additional homes, increasing to £20m in the subsequent 2 years. This is in line with the Council's new Housing Strategy which aims to deliver at least 600 additional homes 2018-2026.

Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.

Financial sustainability (continued)

<u>How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans</u>

See commentary above and links to related evidence. The Council has regularly reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to NFDC that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:

- Reduced Government funding
- Reliance on strategic partners to deliver services and projects
- Financial impact of a pandemic, including national and local budget pressures
- Macro economy, including Brexit
- Failure to achieve income targets
- Inflation rises

During the Covid-19 pandemic, the Authority demonstrated its financial resilience through the publication of the emergency budget during 20/21, as it became clear the assumptions used in the original budget were no longer adequate. Portfolio holders updated Cabinet regularly through the year, keeping track of the estimated financial impact of ongoing changes with lockdowns and additional Government grants.

Governance

<u>How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</u>

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed by NFDC. The register details the risks facing the Council and the impact on critical services. The Strategic Risk Register is managed by the Council's Executive Management Team (EMT) and Portfolio leads. It is updated for newly stated risks and ongoing matters on a regular basis. This risk register is formally agreed by Cabinet and also reviewed by the Audit Committee who make comments when required to Cabinet on the efficacy of the arrangements for managing risk at the council.

Governance (continued)

We have reviewed the risk register for March 2021 as taken to Cabinet. The key risks (red rated) identified in the risk register which would impact our Vfm work include:

- Long term negative impact on the local community and economy resulting from Covid-19
- Loss of annual Government Homeless, Rough Sleeper Initiative (RSI) and Discretionary Housing Payments (DHP) funding
- Loss of Housing Revenue Account (HRA) income through increase in rent arrears and void rent loss
- Changes in the Housing Market, valuations and legislation affecting housing development programmes
- Financial uncertainty arising from ongoing Covid-19 crisis and one year only financial settlement
- Insufficient resources to provide frontline services to the same staffing levels

Several of these items have been published at the height of Covid-19 and there has since been further clarity on available funding and improved forecasting as further evidence became available on the impacts of the pandemic. Other areas are all considered to be medium risks due to the mitigations the Council have been able to put in place, which includes the regular performance monitoring that occurs in each of these areas. Financial risks are rated as a medium risk due to the mitigation of the Council's strong levels of reserves.

The Council has an established anti-fraud and corruption strategy , anti-money laundering policy and whistle-blowing arrangements that are accessible on its website, as has been documented in our Entity Level Controls work.

Those charged with governance and all officers have access to a e-learning that outlines NFDC's fraud-related policies, and that this must be completed every two years.

There is an established internal audit function, performed by the Southern Internal Audit Partnership (SIAP) and programme of work and an annual opinion on internal control is given by the Chief Internal Auditor. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit activity. Internal audit set out their testing approach at the beginning of each financial year, detailing the areas they will focus on. The audit plan has been developed having regard to the Council's 'Vision, Priorities and Values', the Council's risk management framework and areas of Corporate/National significance such as Climate Change.

The Chief Internal Auditor opinion for 2020/21 provided reasonable assurance on NFDC's framework of governance, risk management and control.

Governance (continued)

<u>How the body approaches and carries out its annual budget setting process</u>

The budget is derived both bottom-up and top-down. The budget for 2019/20 plus any in year permanent budget approvals was rolled forward as a starting budget for 2020/21. Meetings are then held with managers where they make changes to the starting budget as they see appropriate, based on their forecasts. Changes are brought back to Finance for challenge. Consultation is undertaken with the Portfolio Holders and scrutiny is offered by the Corporate and Housing Overview and Scrutiny Panels in specific aspects of the budget.

The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated. This was the case for the 20/21 budget where impacts of the Covid-19 pandemic meant the original assumptions in the budget were no longer viable and an emergency budget was required. This budget was updated quarterly as further information became available. and these updated assumptions have been amended as more information became available during the pandemic. For the 21/22 budget the impacts of Covid-19 have become more clear, as well as Central Government support. This allowed the Council to set the 21/22 budget in February 2021, and has not required additional amendment in year.

NFDC maintain a general balance at their minimum reserve level of £3m. In addition to the general fund balance, the Council also hold a number of earmarked reserves to cover unexpected liabilities/increases in costs. During the year, they report internally on the performance of the general fund, and earmarked reserves. In the 19/20 accounts these reserves were as follows;

- General Fund: £3,000k
- Earmarked reserves: £19,314k
- HRA Balance: £1,000k

At 31/3/21 the Council's reserves position is as follows per the financial statements:

- General Fund: £3,000k
- Earmarked Reserves: £31,686k
- HRA Balance: £1,000k

A further £3,571k was also held in the Capital Receipts Reserve which is available for use to support the future capital spending of the Council.

Governance (continued)

<u>How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed</u>

Financial Monitoring is achieved by regular budgetary control reports to nominated budget holders, EMT, 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 in place with an annual report of work carried out presented to Council.

There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of the EMT and Portfolio heads to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Executive Head of Financial & Corporate Services to any problems.

The Council's financial performance (revenue and capital) are formally reported quarterly through a Financial Monitoring Report.

There is also an internal audit function which provides an interim report and a year-end report to confirm that control are in place properly. We have obtained the report from internal audit at year end, which reported 1 item with limited assurance, relating to Payroll Increments. Internal audit provided the following detail as to why limited assurance was given:

There is no formal, documented process for the Management Team to utilise covering the process to advise Payroll of incremental pay awards or the timeframes the annual process usually follows. There are three differing processes for confirming if increments apply, depending upon the seniority of the staff members. Whilst an e-mail was sent to EMT and Service Managers outlining requirements and timeframes, the 2020 communication was not sufficiently comprehensive, did not cover all three of the differing processes and was not initially cascaded to all relevant staff. Whilst the Payroll Managers have process documentation detailing how to run the bulk update process for Spinal Column Points (SCP) increments within iTrent, there is no documentation detailing the entire increment process, including the sequential order of required actions, who within Payroll is assigned responsibility for actioning, or when action is required by.

Governance (continued)

For the 2020 increments, the processes lacked structure when collating management responses, double-checking interpretations, and confirming that they have been actioned.   No reconciliations were carried out to ensure that the spreadsheet covered the expected number of posts nor was the final SCP position within iTrent for all staff cross-referenced back to the actions identified in the spreadsheet.

The details provided by Internal Audit provide assurance that, in our judgement, does not indicate a significant weakness for our assessment of VFM arrangements.

Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.

<u>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee</u>

Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Cabinet or Council in accordance with the Council's constitution. We note that there is Cabinet meeting per month, to ensure leadership is regularly updated on NFDC's position.

There is are established Overview and Scrutiny Panels and Audit Committee which is the body formally charged with governance at the Council. The role of the Scrutiny Panels is to undertake reviews of the Council's policies, either on their own initiative or at the request of the Council or the Cabinet, advise on policy development, and review executive decisions to make sure the Cabinet does not exceed its powers. The Audit Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct.

Governance (continued)

<u>How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interest)</u>

The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. These Codes provide the structures and guidance that members and employees require in order to ensure effective governance across the Council. It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Section 5 of the Constitution . Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website.

There are appropriate policies for such matters as accepting new business, conflicts of interest, and security practices that are adequately communicated throughout the organization. The entity's corporate culture emphasizes the importance of integrity and ethical behaviour. Management takes appropriate action in response to departures from approved policies and procedures or the code of conduct.

Governance (continued)

Records are maintained of all instances of fraud and irregularity reported for monitoring and analytical purposes. New Forest District Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work in line with the Anti-fraud, Bribery and Corruption Strategy. The internal audit plan contains a provision to monitor the outcomes of this work and review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis. Reported investigations into suspected and alleged acts of theft, fraud or corruption, are undertaken professionally and sensitively by appropriately trained staff. The decision on whether to invoke criminal proceedings is made in liaison with the Monitoring Officer.

Staff are expected, and are positively encouraged, to raise any concerns relating to fraud and corruption of which they become aware. The Council has an established and recently updated Whistleblowing policy enabling employees to raise and report concerns of fraud. The Council has a strong governance framework that supports an anti-fraud culture.

The entity has several policy and procedure manuals relating to its processes and internal control which are held on the Council's intranet and available to all employees to ensure they are fully informed on the standards of the Council. Training and awareness sessions are provided as necessary. From our discussions with members of staff, employees are aware of these policies and procedures and able to access them.

Improving economy, efficiency and effectiveness

<u>How financial and performance information has been used to assess performance and identify areas for improvement</u>

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council produces a report of its Strategic Key Performance Indicators within its position statement. These KPIs are linked back to the key priorities within the Corporate Plan. The KPIs are organised into the portfolio headings and a performance summary is RAG rated, split between, staffing, budget and service delivery impact. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.

<u>How the body evaluates the services it provides to assess performance and identify areas for improvement</u>

As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report.

Improving economy, efficiency and effectiveness (continued)

The Council also produce an annual Position Statement which enables the Council and the public to identify services or capital programmes that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. Monitoring arrangements therefore present a complete picture of both business and financial performance. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring. The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.

The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports and performance dashboards. One of the priorities is the progression of housing benefits over to Universal Credit, which is carried out in tandem with DWP and New Forest Citizens Advice.

The Council actively engages in several key partnerships, including partnerships with the County Council (audit and treasury), the Partnership for South Hampshire (planning) and the Solent Freeport Consortium Ltd.

The annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.

There is also a 'Transparency and Open Government' section on the Council website, which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.

There is also a governance structure in place to ensure performance expectations are met.

Improving economy, efficiency and effectiveness (continued)

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits

New Forest District Council purchases goods and services from a variety of suppliers. Details of procurements are documented at www.newforest.gov.uk/article/942/Supplying-the-council, which includes the Council's overall procurement strategy (last updated March 2021) to help support delivery of the Council's Corporate Plan. The website also includes details on the terms and conditions and general procurement process, see at www.newforest.gov.uk/standardtermsandconditions. The Council shares information on upcoming tenders as well as details of existing contracts at South East Business Portal (SEBP) which is used by over 35 other local authorities.

Proposals for asset maintenance expenditure are supported by a business case, as are requests for new revenue resources. These are scrutinised initially by the Executive Management Team 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 the Council each year.

All procurement processes and contract awards must comply with the Council's Contract Standing Orders (CSOs) set out in Chapter 26 of its Constitution which also set out the limited circumstances and processes that need to be followed for those requirements to be waived.

There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

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.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues to date during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Control Themes and Observations

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

Appendix A

Audit Fees

Audit Fees – New Forest District Council

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	42,721	42,721	42,721
Scale Fee Rebasing: Fee for further changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	24,429	19,543	17,983
Scale Fee Variation (see Note 2)	22,120		
Total Audit Fees	**89,270**	**62,264**	**60,704**

Note 1 – In our Audit Results Report, we confirmed the final 2019/20 Scale Fee Variation (SFV) had been approved by the PSAA, which was a combination of our scale fee rebasing and scale fee variation submission and represented 59% of our original submission. PSAA did not specifically confirm the value of the SFV which relates to the scale fee rebasing. Therefore, we continue to record this with using the same number of hours as prior years. However, for 2020/21, the PSAA increased their hourly charge rates by 25%, and this therefore accounts for the increase in the fee submission.

Note 2 – Our SFV for matters specific to 2020/21 is broken down as follows:

- £6,075 for additional works required in relation to VfM as per the updated NAO Code of Audit Practice 2020, which is the lower end of PSAAs published expected range,
- £2,512 for additional works required as per the updated ISA 540 (estimates) standard, again at the lower end of PSAA's published expected range.
- £2,626 for work performed by our Pensions Specialists, EY Pensions Consulting and Property Valuations Specialists, EY Real Estates
- £2,248 for additional works relating to Accounting for Covid-19 related government grants, a new inherent risk for 20/21, and testing on the Sales Fees and Charges grant, designated a significant risk for 20/21.
- £5,640 for the additional scope requirements of testing the group accounts, material entries, consolidation and related disclosures for 20/21
- £1,510 for the additional work required to confirm the data was migrated over to the new financial system appropriately in 20/21
- £1,509 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors and for additional procedures required relating to Housing Benefit expenditure

New Forest District Council

Outline Audit Plan

Year ended 31 March 2022

July 2022

Agenda Item 5

Building a better working world

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

4 July 2022

Dear Audit Committee Members

Outline Audit Plan

We are pleased to attach our Outline Audit Plan.

Its purpose is to provide the Audit Committee with an overview of our plans and fee for the 2021/22 audit. Due to the timing of our audit for the year, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee following completion of our planning procedures, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

We welcome the opportunity to discuss this report with you on 29th July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

[redacted]

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc

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 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 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 2021/22 Audit

2021/22 Audit

2021/22 financial statements audit

Planning for 2021/22

We have met the Chief Executive and the Executive Head of Financial & Corporate Services in July 2022 to discuss the conclusion of our 2020/21 audit. We are currently organising our initial planning for the 2021/22 audit. This will incorporate learning from the 2020/21 audit.

For 2021/22, the timetable as amended in the Department for Levelling Up, Housing and Communities paper titled "Measures to improve local audit delays" published in December 2021 extends the publication date for audited local authority accounts from 31 July to 30 November.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. Our current proposed audit visit commences in November with expected completion in March 2023.

We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

45

DLUHC

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. 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. These include:

- Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.
- Increasing workload and regulatory pressure on auditors. 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.

In addition to the challenges faced by auditors, 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 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 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. These commitments are set out in Appendix A.

CIPFA/LASAAC

Following an exceptional consultation by CIPFA/LASAAC on time limited changes to the 2021/22 and the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom, a decision has been made to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023.

2021/22 Audit

Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

We set our planning materiality for the Council at £2.429m, which is based on 2% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We will report to the Committee all audit differences in excess of £0.121m.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of fraud in revenue recognition – inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Valuation of Land and Buildings Inc. Investment Properties (FV/EUV)	Significant risk	No change in risk or focus	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.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings (DRC)	Inherent risk	No change in risk or focus.	Land and Buildings valued using Depreciated Replacement Cost (DRC) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Valuation of Council Dwellings	Inherent risk	No change in risk or focus	The fair value of Council Dwellings represents a significant balance in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset 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 County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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. For 21/22 we are aware of the TUPE transfer of staff to Freedom Leisure and the associated pension liability impact as part of the transfer agreement. We expect this to be incorporated into the actuary's IAS19 report but we will confirm this is the case as part of our pension liability testing.

Overview of our 2021/22 audit strategy

2020/21 issues no longer assessed as risks for 2021/22.

The following items appeared in our 2020/21 audit plan, and are no longer assessed as risks for our 2021/22 audit:

- Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges
  - Based on the level of income received in 2021/22 relating to this scheme, we do not expect it to be material. We will return to this assessment following receipt of the 2021/22 draft accounts. Instead of separating out this item as a significant risk, the scheme will be included as part of our overall grants testing work.
- New financial ledger
  - The new financial ledger came into effect on 1/4/20 and no issues were identified as a result of our testing in 2020/21. Therefore this is no longer considered to be a significant risk in 2021/22
- Accounting for furlough
  - This item was considered an inherent risk in the 2020/21 Audit Plan. However, it was confirmed at the year end audit that funding via the furlough scheme was immaterial and therefore was removed as an inherent risk in the 2020/21 audit, as recorded in the Audit Results Report. We conclude that the furlough scheme will be immaterial for 2021/22 and therefore we have not included as an inherent risk. We will return to this assessment following receipt of the 2021/22 draft accounts.
- Accounting for Covid-19 related government grants
  - This was assessed to be an inherent risk in the prior year due to the first year of accounting for the Covid-19 related grants. Following our completion of testing in 2020/21, where we were satisfied with the recording of Covid-19 related grants in the accounts, we consider the risk of material misstatement in this area to be sufficiently reduced.

02 Value for Money

Value for money

Council responsibilities for value for money

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

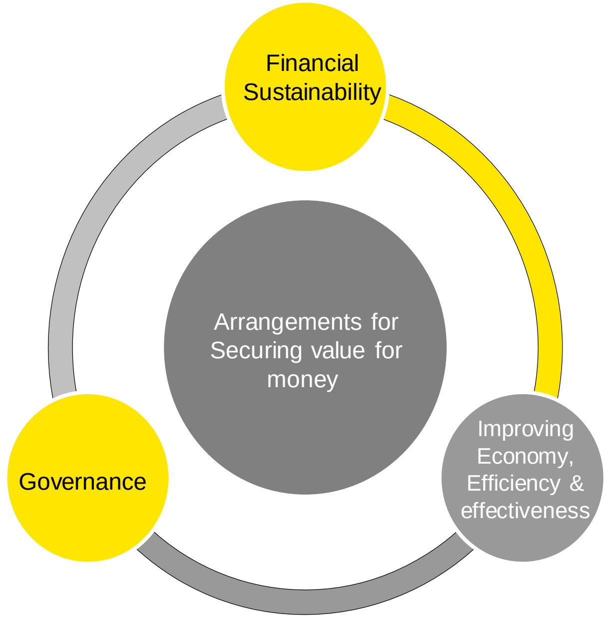
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the Code

Under the 2020 Code 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 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 they 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.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's Annual Governance Statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

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

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our work

We have not yet started our value for money procedures for 2021/22. A full update following completion of our planning work will be included within our detailed audit plan. Based on our work in the previous year, and our current understanding of the circumstances of the Council, we have not currently identified any issues that indicate a significant risk.

03 Fees

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Submitted fee 2020/21	Planned fee 2020/21
	£	£	£
PSAA Scale Fee	42,721	42,721	42,721
Total agreed fees:	42,721	42,721	42,721
Scale fee rebasing (Note 1)	24,429	24,429	19,543
Scale Fee Variation (Note 2)	TBC	22,120	-
Total proposed fees	TBC	89,270	62,264

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Authority; and

► The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

The table sets out our current expected fees for 2021/22, and the comparator for 2020/21.

The 2020/21 fee was reported in our Auditors Annual Report, and will be shortly submitted to the PSAA for approval following discussion with officers. We will update the committee when PSAA determine the fee.

(1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £24,429, as per our 2020/21 Auditor's Annual Report.

(2) Any SFV for matters specific to 2021/22 will be discussed with officers should they arise from the detailed planning and execution of our audit. We have not currently included any assumptions on the ongoing impact of the 2020 Code of Audit Practice and ISA540 (estimates) that were included in the 20/21 fee variation and have an recurring impact.

04 Appendices

Appendix A

Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. 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;
3. 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;
4. 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;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. 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;
7. 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;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts.;
12. 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; and,
13. 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.

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AUDIT COMMITTEE – 29 JULY 2022

PORTFOLIO: FINANCE, INVESTMENT & CORPORATE SERVICES / ALL

DRAFT ANNUAL FINANCIAL REPORT 2021/22

1. Introduction

1.1 The Council's statutory Annual Financial Report, which includes 6 Statements of Account, will be presented to this Committee after completion of the external audit (taking place from November). Prior to submission for audit, by the deadline of 31 July, it will be signed by the certified Responsible Financial (S151) Officer as complete and presenting the position of the Council, as at 31 March 2022.

1.2 In January 2021, the Government consulted on amendments to the Accounts and Audit Regulations 2015, to extend the deadline for publishing audited local authority accounts to 30 September from 31 July. The Government response said the deadline would be extended for two years from 2020/21 and to review at that point whether there is a continued need to have an extended deadline. These Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 2021. Subsequently, the government have expressed an intention to lay secondary legislation to extend the audit deadline to 30 November for 2021/22 and have confirmed that a return to 31 July is not likely.

1.3 The Council's External Auditor has previously explained why their audit timings do not fit with the revised dates as per the (Amended) regulations.

2. Purpose of the Report

2.1 This report updates Members on progress to achieve the required timetable, to advise Members of key issues in the planned report and to seek Members' approval for any changes to Accounting Policies (if applicable).

3. Statement of Accounts Position

3.1 The Council is required to include the following accounting statements within the Annual Financial Report:

- 1a) Comprehensive Income and Expenditure Statement
- 1b) Expenditure and Funding Analysis (in NFDC management format)
- 2) Movement in Reserves
- 3) Balance Sheet
- 4) Housing Revenue Account
- 5a) Collection Fund – Council Tax
- 5b) Collection Fund – Business Rates
- 6) Cash Flow Statement

3.2 The draft Accounting Statements for 2021/22, prior to external audit, are set out in Appendices 1 – 6. The Expenditure and Funding Analysis Statement included as appendix 1b, is a supporting statement to the Comprehensive Income and Expenditure Statement.

3.3 The full Draft Unaudited Annual Financial Report will be made available on the Council's Website (Annual budgets and financial report - New Forest District Council) before the statutory deadline of 31 July 2022. Should any member of the Audit Committee wish to raise any queries on the statement before the next Committee meeting, the contact details for the Council's Chief Financial Officer are included at the foot of this report.

4. Accounting Policy Changes and Other Key Matters

4.1 There has been no requirement to change any Accounting Policies for 2021/22.

4.2 The original budget for 2021/22 included the use of £138,000 from the Budget Equalisation Reserve; a reserve there to assist in balancing the budget over the medium term. It included a £1.25 million budget to allow for the potential re-instatement of a secondary pension contribution rate, should the pension fund be in a deficit once the 2022 triennial revaluation takes effect. The £1.25 million has been transferred to the Capital Programme reserve, as has the overall General Fund underspend for the year. This reserve supports the delivery of the Council's Capital Programme over the Medium term period.

4.3 For 2021/22, the National Non Domestic Rate (NNDR or Business Rates) collection fund shows a deficit of £15.8 million. This has primarily come about as a result of the additional reliefs announced by the Government in response to the pandemic. The cost of the reliefs has been fully funded by the Government through additional Section 31 grant. In accordance with collection fund accounting, the 2021/22 collection fund doesn't recognise the additional section 31 grant, and instead this is brought into consideration in 2022/23. The Council's share of the deficit is 40%. The Council's share of the additional Section 31 grant is also 40%. The 2 items therefore largely cancel each other out. The Council's share of the additional Section 31 grant has been placed into a reserve entitled 'Business Rates Reserve' to use in covering the significant proportion of the Council's share of the collection fund deficit in 2022/23.

4.4 Previous years' reports highlighted changes to the Business Rates Retention scheme that took place in April 2013 and the need for the Council to hold a provision for anticipated successful appeals against rating assessments. As at 1 April 2021 the total provision was £7.240 million, of which the Council's share totalled £2.896 million (40%). Table 1 confirms the movements in the provision during 2021/22, and the revised balances as at 31 March 2022:

Table 1	**Total £'000**	**NFDC £'000**
Appeal Provision 1 April 2021	(7,240)	(2,896)
Additional Provisions Made 2021/22	(4,975)	(1,990)
Amounts Used 2021/22	3,715	1,486
Appeal Provision 31 March 2022	**(8,500)**	**(3,400)**

4.5 New Forest District Council has been significantly impacted by the Coronavirus COVID-19 pandemic albeit the impact to 2021/22 has been significantly less than experienced in 2020/21. Judgements have been made throughout with the reader of the accounts in the forefront of decisions on presentation of certain items. In producing the accounts to 31 March 2022, no adjustment is necessary in terms of the accounts being produced in a manner befitting with a 'Going Concern' status.

4.6 In producing the accounts for 2021/22, the Council's wholly owned group of companies (Appletree Property Group) have been consolidated as 'Group Accounts'. This means that transactions that took place within the Company accounts need bringing into NFDC accounts, with transactions that took place between NFDC and Appletree being largely cancelled out. The statements produced within this Agenda are the NFDC accounting statements, pre-consolidation. The consolidated accounting statements from part of the overall annual financial report to be signed, audited and published.

5. Summary of Financial Position

5.1 The Comprehensive Income and Expenditure Statement and Balance Sheet show the value of the Council's net worth to have increased by £63.974 million during 2021/22. The value of net assets held by the Council now totals £331 million. The principal reasons and the breakdown of this year-on-year decrease between the various reserves are summarised as follows:

	£'000
Net Increase in PPE Assets	30,568
Increase in Investment Property	6,079
Increase in short-term Investments	21,477
Decrease in short-term Debtors	(6,326)
Increase in Cash and Cash equivalents	15,694
Increase in short-term Creditors	(32,589)
Decrease in long-term Borrowing	4,300
Decrease in Pension Liability	25,684
Net Other	(913)
	63,974

Council Dwellings	34,021
Other Land and Buildings	(5,931)
Vehicles & Plant	2,071
Infrastructure	(293)
Assets Under Construction	700
	30,568

Usable Reserves	
Earmarked Reserves	(6,622)
Capital Programme Reserve	(139)
Capital Receipts Reserve	2,324
Community Infrastructure Levy Unapplied	1,025
Developers' Contributions Unapplied	182
	(3,230)

Unusable Reserves	
34,729	Revaluation Reserve
(65)	Capital Adjustment Account
1,378	Financial Instruments Revaluation Reserve
32	Deferred Capital Receipts Reserve
25,684	Pensions Reserve
5,377	Collection Fund Adjustment Account
69	Accumulating Absences Adjustment Account
67,204	

5.2 Usable reserves have decreased by £3.230 million, with the majority being down to adjustments in the Business Rates Reserve, totalling a net £5.030 million. This net downward adjustment recognises additional reliefs awarded in 2020/21 totalling £11.357 million now being released FROM the reserve, supplemented by contributions TO the reserve of £6.327 million representing the value of additional reliefs awarded in 2021/22.

5.3 The 2021/22 original net budget requirement for the General Fund was £19.291 million, an increase of £97,000 from 2020/21. The Council's budget anticipated being funded £13.117 million from Council Tax (including a £5 increase) and £5.707 million from retained business rates. A significant swing in the Business Rate Collection fund, going from a surplus of £892,000 in 20/21 to an expected deficit of £424,000 in 2021/22 made the budget setting particularly difficult in 2021/22, and ultimately necessitated a contribution from the budget equalisation reserve of £138,000, in order to produce a balanced budget.

5.4 Income and expenditure variations in services during the year were £1.123 million. Additional government grants were also received. Transfers to committed schemes/earmarked reserves totalled £622,000 for the year, and a contribution to Capital Programme Reserves totalled £851,000.

5.5 Housing Revenue Account variations in income and expenditure for 2021/22 totalled £528,000. Income was £295,000 less than originally budgeted, and Repairs and Maintenance spend £662,000 higher than originally budgeted. There was a reduced level of Supervision and Management expenditure in comparison to the original budget, saving £373,000. The balance on the account as at 31 March 2021 was retained at £1 million. The original budget for 2022/23 anticipates a break-even position for the year.

5.6 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 2021/22 (including the gross value of the Coastal Regional Monitoring Programme) was £36.197 million. This was initially supplemented by rephasings and additional projects. The February financial monitoring report adjusted the budget to £31.828 million. Actual expenditure of £25.646 million (including overall financing to Appletree Property Group) was £6.182 million less than the February updated budget.

5.7 The Council retained its investments in a variety of pooled funds in 2021/22. Total treasury management interest earnings were £0.63 million in 2021/22. The market value of the £13.060 million invested by the Council in Pooled funds was £14.9 million as at 31/3/22.

5.8 The Council's Balance Sheet shows a net pension liability of £91.020 million; a decrease of £25.684 million from 31 March 2021. 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 liabilities under the scheme will be made good by increased contributions over the working lives of employees. The Pension Fund actuary will complete their 3 yearly actuarial review during 2022, which will result in a new individual primary rate contribution percentage for each scheme member (at organisation level) and will confirm the overall net fund position. This triennial review will set contribution rates for 2023/24 – 2025/26.

6. Recommendations

6.1 That Members note the draft Accounting Statements set out in Appendices 1-6 which are a summary of the Annual Financial Report that will be certified by the Responsible Financial (S151) Officer for the submission to the external auditor by the deadline of 31 May.

For Further Information Please Contact:
Alan Bethune
Executive Head of Financial and Corporate Services
Section 151 Officer
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Appendix 1a

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2020/21					2021/22		
Gross Expend £000	**Gross Income £000**	**Net Expend £000**		**Note**	**Gross Expend £000**	**Gross Income £000**	**Net Expend £000**
256	(2)	254	Business, Tourism and High Streets		342	(3)	339
11,966	(4,997)	6,969	Environment and Coastal Services		10,414	(6,108)	4,306
39,035	(35,152)	3,883	Finance, Investment and Corporate Services		34,679	(31,562)	3,117
6,685	(4,651)	2,034	Housing and Homelessness Services		7,857	(5,296)	2,561
457	(16)	441	Leader		482	(5)	477
11,979	(2,969)	9,010	Partnering and Wellbeing		18,512	(2,171)	16,341
8,052	(4,838)	3,214	People and Places		8,520	(4,914)	3,606
4,558	(1,968)	2,590	Planning, Regeneration and Infrastructure		5,172	(2,043)	3,129
82,988	(54,593)	28,395	General Fund		85,978	(52,102)	33,876
24,767	(28,097)	(3,330)	Housing Revenue Account		21,037	(28,742)	(7,705)
107,755	**(82,690)**	**25,065**	**Cost of Services**		**107,015**	**(80,844)**	**26,171**
			Other Operating Expenditure				
6,519			Town and Parish Council Precepts		6,667		
662			Payments to the Government Housing Capital Receipts Pool		575		
	(1,072)		(Gains)/Losses on the disposal of Non-Current Assets			(2,723)	
		6,109	**Total Other Operating Expenditure**				**4,519**
			Financing and Investment Income and Expenditure				
			Interest Payable and Similar Charges:				
19			- General Fund		14		
4,245			- HRA		4,158		
3			Expected Credit (Gain)/Loss on Investments			(1)	
45	(1,177)		Changes in the fair value of Investments		152	(1,530)	
	(843)		Other Investment Income			(768)	
2,242			Net interest on the net defined benefit liability/(asset)	42	2,407		
7			Income, expenditure and changes in the fair value of Investment Properties	12		(937)	
		4,541	**Total Financing and Investment Income and Expenditure**				**3,495**
			Taxation and Non-Specific Grant Income				
	(19,339)		Council Tax Income (incl. Parish precepts)			(20,036)	
	(5,942)		Non-Domestic Rates Income and Expenditure	44		(5,095)	
	(6,816)		Unringfenced Government Grants	44		(1,619)	
	(3,714)		Capital Grants and Contributions	44		(2,103)	
		(35,811)	**Total Taxation and Non-Specific Grant Income**				**(28,853)**
121,497	(121,593)	**(96)**	**(Surplus)/Deficit on the Provision of Services**	5	120,988	(115,656)	**5,332**
	(4,863)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			(35,179)	
11,276			Re-measurement of the defined benefit liability/(asset)	42		(34,127)	
		6,413	**Other Comprehensive Income and Expenditure**				**(69,306)**
		6,317	**Total Comprehensive Income and Expenditure**				**(63,974)**

Total Comprehensive Income and Expenditure has moved by £70.291 million between 2020/21 and 2021/22.

Mr A Bethune FCCA – Chief Finance Officer (S151) Date 29 July 2022

Appendix 1b

EXPENDITURE AND FUNDING ANALYSIS

(supporting note to the Comprehensive Income and Expenditure Statement)

	2021/22		
	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**
	£000	**£000**	**£000**
2021/22:			
Business, Tourism and High Streets	276	63	339
Environment and Coastal Services	3,578	728	4,306
Finance, Investment and Corporate Services	2,384	733	3,117
Housing and Homelessness Services	2,001	560	2,561
Leader	401	76	477
Partnering and Wellbeing	5,757	10,584	16,341
People and Places	3,116	490	3,606
Planning, Regeneration and Infrastructure	2,084	1,045	3,129
General Fund	19,597	14,279	33,876
Housing Revenue Account	(7,841)	136	(7,705)
Cost of Services	**11,756**	**14,415**	**26,171**
Total Other Operating Expenditure	6,667	(2,148)	4,519
Total Financing and Investment Income and Expenditure	2,750	745	3,495
Total Taxation and Non-Specific Grant Income	(26,750)	(2,103)	(28,853)
(Surplus)/Deficit on the Provision of Services	**(5,577)**	**10,909**	**5,332**
Other Comprehensive Income and Expenditure	12,338	(81,644)	(69,306)
Total Comprehensive Income and Expenditure	**6,761**	**(70,735)**	**(63,974)**
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	6,761		
Transfer to/ (from) Earmarked Reserves	(6,761)		
Closing General Fund and HRA Balances	**(4,000)**		
2020/21:			
Business, Tourism and High Streets	216	38	254
Environment and Coastal Services	4,520	2,449	6,969
Finance, Investment and Corporate Services	3,007	876	3,883
Housing and Homelessness Services	1,686	347	2,033
Leader	373	69	442
Partnering and Wellbeing	7,540	1,470	9,010
People and Places	3,046	168	3,214
Planning, Regeneration and Infrastructure	1,931	659	2,590
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)**		

Appendix 2

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 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)**
Movement in reserves during 2021/22										
(Surplus)/deficit on the provision of services	11,580	0	(6,248)	0	0	0	0	**5,332**	**0**	**5,332**
Other comprehensive income and expenditure	0	0	0	0	0	0	0	**0**	**(69,306)**	**(69,306)**
Total Comprehensive Income and Expenditure	**11,580**	**0**	**(6,248)**	**0**	**0**	**0**	**0**	**5,332**	**(69,306)**	**(63,974)**
Adjustments between accounting basis and funding basis under regulations (note 8)	(6,210)	0	7,639	0	(2,324)	(1,025)	(182)	**(2,102)**	2,102	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**5,370**	**0**	**1,391**	**0**	**(2,324)**	**(1,025)**	**(182)**	**3,230**	**(67,204)**	**(63,974)**
Transfers to/(from) earmarked reserves (notes 9/10)	(5,370)	6,622	(1,391)	139	0	0	0	**0**	**0**	**0**
(Increase) / Decrease in Year	**0**	**6,622**	**0**	**139**	**(2,324)**	**(1,025)**	**(182)**	**3,230**	**(67,204)**	**(63,974)**
Balance at 31 March 2022	**(3,000)**	**(25,064)**	**(1,000)**	**(12,004)**	**(5,895)**	**(7,023)**	**(4,790)**	**(58,776)**	**(272,057)**	**(330,833)**

Appendix 3

BALANCE SHEET AS AT 31 MARCH

2020/21				2021/22	
£000	£000		Notes	£000	£000
		Long-Term Assets			
		Property, Plant and Equipment:			
384,811		Council Dwellings	11	418,832	
67,842		Other Land and Buildings	11	61,911	
2,437		Vehicles, Plant and Equipment	11	4,508	
3,064		Infrastructure	11	2,771	
537		Community Assets	11	537	
3,286	461,977	Assets Under Construction	11	3,986	492,545
	12,384	Investment Property	12		18,463
	17,120	Long-Term Investments	14		16,824
	2,712	Long-Term Debtors	15		3,449
	494,193	**Total Long-Term Assets**			531,281
		Current Assets			
25,053		Short-Term Investments	16	46,530	
267		Inventories	17	283	
17,491		Short-Term Debtors	18	11,165	
(2,987)		Bad Debt Provision	18	(2,718)	
8,878		Cash and Cash Equivalents	19	24,572	
	48,702	**Total Current Assets**			79,832
	542,895	**Total Assets**			**611,113**
		Current Liabilities			
(4,346)		Short-Term Borrowing	20	(4,345)	
(27,435)		Short-Term Creditors	21	(60,024)	
	(31,781)	**Total Current Liabilities**			(64,369)
		Long-Term Liabilities			
(122,605)		Long-Term Borrowing	22	(118,305)	
(2,968)		Provisions	23	(4,020)	
(1,401)		Capital Grants - Receipts in Advance	24	(2,001)	
(577)		Developers' Contributions - Receipts in Advance	25	(565)	
(116,704)		Net Pensions Liability	42	(91,020)	
	(244,255)	**Total Long-Term Liabilities**			(215,911)
	266,859	**Net Assets**			**330,833**
		Usable Reserves			
3,000		General Fund Balance		3,000	
31,686		Earmarked Reserves	9	25,064	
1,000		Housing Revenue Account Balance		1,000	
12,143		Capital Programme Reserve	10	12,004	
3,571		Capital Receipts Reserve	26	5,895	
5,998		Community Infrastructure Levy Unapplied	27	7,023	
4,608	62,006	Developers' Contributions Unapplied	27	4,790	58,776
		Unusable Reserves			
46,595		Revaluation Reserve	28	81,324	
286,484		Capital Adjustment Account	29	286,419	
(90)		Financial Instruments Revaluation Reserve	30	1,288	
444		Deferred Capital Receipts Reserve	31	476	
(116,704)		Pensions Reserve	32	(91,020)	
(11,283)		Collection Fund Adjustment Account	33	(5,906)	
(593)	204,853	Accumulating Absences Adjustment Account	37	(524)	272,057
	266,859	**Total Reserves**			**330,833**

Mr A Bethune FCCA – Chief Finance Officer (S151) Date 29 July 2022

Appendix 4

HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE STATEMENT

2020/21			2021/22
£000		Notes	£000
	Income		
(26,360)	Dwelling rents		(26,993)
(711)	Non-dwelling rents		(659)
(654)	Charges for services and facilities		(695)
(372)	Contributions towards expenditure		(395)
(28,097)			**(28,742)**
	Expenditure		
5,024	Repairs and maintenance	3	5,426
6,825	Supervision and management		7,690
90	Rents, rates, taxes and other charges		169
12,562	Depreciation, impairment and revaluation of non-current assets	4	7,544
12	Debt Management Costs		12
108	Movement in the allowance for bad debts		50
24,621			**20,891**
(3,476)	**Net (Income) / Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement**		**(7,851)**
146	HRA services' share of Corporate and Democratic Core		146
(3,330)	**Net (Income) / Expenditure for HRA Services**		**(7,705)**
	HRA share of the Operating Income and Expenditure included in the whole authority Comprehensive Income and Expenditure Statement		
(1,008)	(Gain) / Loss on sale of HRA non-current assets		(2,525)
4,245	Interest payable and similar charges		4,158
(17)	Interest and investment income		(23)
441	Net interest on the net defined benefit liability / (asset)	5	521
(13)	Income and expenditure in relation to investment properties and changes in their fair value		(9)
(1,000)	Capital Grants and Contributions Receivable		(665)
(682)	**(Surplus) or Deficit for the year on HRA services**		**(6,248)**

Appendix 5a

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.

2020/21			2021/22	
£000	£000		£000	£000
		Income		
	(131,839)	Income from Council Tax		(139,629)
		Transfers to / (from) General Fund:		
(699)		Hardship Relief	(37)	
(71)		Family Annex Relief	(92)	
0	(770)	Transitional Relief	1	(128)
	(132,609)	**Total Income**		**(139,757)**
		Expenditure		
		Precepts:		
91,960		Hampshire County Council	96,609	
15,118		Police and Crime Commissioner for Hampshire	16,201	
4,937		Hampshire and Isle of Wight Fire And Rescue Service	5,038	
19,271		New Forest District Council (including	19,785	
	131,286	town and parish council requirements)		137,633
		Bad and Doubtful Debts		
261		Write-offs	273	
546	807	Increase / (decrease) in provisions	95	368
		Contributions:		
	1,485	Previous year's estimated council tax surplus / (deficit)		(639)
	133,578	**Total Expenditure**		**137,362**
	969	**Movement on fund balance**		**(2,395)**
	(1,535)	(Surplus) / Deficit at 1 April		(566)
	969	Movement on fund balance for year		(2,395)
	(566)	**(Surplus) / Deficit at 31 March**		**(2,961)**

Appendix 5b

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.

2020/21			2021/22	
£000	£000		£000	£000
		Income		
		Income collectable from Business Ratepayers		
	(40,348)	Current System		(55,299)
	316	Transitional Protection Payments		258
	(40,032)	**Total Income**		**(55,041)**
		Expenditure		
34,462		Payments to Government - Business Rates Retention	34,692	
27,569		New Forest District Council	27,754	
6,203		Hampshire County Council	6,245	
689		Hampshire and Isle of Wight Fire And Rescue Service	694	
275		Costs of Collection	276	
11		NFDC - Renewable Energy Schemes	12	
	69,209			69,673
		Bad and Doubtful Debts		
168		Write-offs	174	
391		Increase / (decrease) in provisions	(403)	
(2,330)		Appeals Provision	1,259	
	(1,771)			1,030
		Contributions:		
	2,229	Previous year's estimated business rates surplus / (deficit)		(28,237)
	69,667	**Total Expenditure**		**42,466**
	29,635	**Movement on fund balance**		**(12,575)**
	(1,242)	(Surplus) / Deficit at 1 April		28,393
	29,635	Movement on fund balance for year		(12,575)
	28,393	**(Surplus) / Deficit at 31 March**		**15,818**

The significant deficit on the Collection Fund for the 2020/21 and 2021/22 years are 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.

Appendix 6

CASH FLOW STATEMENT

2020/21 £000		Notes	2021/22 £000
(96)	Net (surplus) or deficit on the provision of services		5,332
(22,408)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	34	(42,606)
2,165	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	34	5,580
(20,339)	Net cash flows from Operating Activities		(31,694)
20,685	Investing Activities	35	34,015
9,329	Financing Activities	36	(18,015)
9,675	Net (increase) or decrease in cash and cash equivalents		(15,694)
(18,553)	Cash and cash equivalents at the beginning of the reporting period		(8,878)
(8,878)	**Cash and cash equivalents at the end of the reporting period**	19	(24,572)

AUDIT COMMITTEE 29 JULY 2022

TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2021/22

1. PURPOSE

1.1. New Forest District Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2021/22.

2. SUMMARY

2.1. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2021/22.

2.2. The Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2022. 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 risk are therefore central to the Council's treasury management strategy.

2.3. Treasury management in the context of this report is defined as:

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

2.4. This annual report sets out the performance of the treasury management function during 2021/22, to include the effects of the decisions taken and the transactions executed in the past year.

2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2.6. All treasury activity has complied with the Council's revised Treasury Management Strategy and Investment Strategy for 2021/22, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose.

2.7. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council in February 2022.

3. EXTERNAL CONTEXT

3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2021/22.

Economic commentary

3.2. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over 2021/22.

3.3. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices as well as the concern about further supply chain disruption due to Russia's invasion of Ukraine and recent Covid-19 developments in China led to elevated inflation expectations and 12-month CPI inflation rose to 9.0% in April 2022.

3.4. In efforts to bring inflation down the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate from 0.10% to 0.25% in December 2021, with further increases to 0.50% in February 2022, 0.75% in March, 1.00% in May and 1.25% in June. Also, at its meeting in February, the MPC voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

3.5. In its June 2022 interest rate announcement, the MPC noted that global inflationary pressures have intensified sharply as a result of supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China. In the UK April saw 12-month CPI inflation rise to 9%, driven by the rising price of energy, core goods and to some extent the rising price of food and services. Global inflationary pressures are predicted to develop further in the near term, reaching as high as 10% in September 2022 and above 11% in October 2022. Although short term expectations are for inflation to rise, the outlook over the longer term is for inflation to come back under control but remain elevated compared to the historic average.

3.6. This report is focused on the outturn position for the 2021/22 financial year. However, it is worth noting how the forward looking themes have continued to evolve since the Treasury Management Strategy for 2022/23 was approved by the Council in February 2022.

Financial markets

3.7. The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period which impacted global stock markets.

3.8. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

Credit review

3.9. Credit default swaps (CDS) are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. In the first half of the financial year CDS spreads were flat and broadly in line with pre-pandemic levels. In September CDS spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher between January and March, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

3.10. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Council's counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

3.11. Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

4. REVISED CIPFA CODES, UPDATED PWLB LENDING FACILITY GUIDANCE

4.1. In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB) lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

4.2. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

4.3. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Due to the timing of publication being towards the end of the budget preparation period for 2022/23 it was agreed that the Council would introduce the revised reporting requirements from 2023/24.

4.4. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make an investment or spending decision that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

4.5. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority’s function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

4.6. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management (TM) Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

4.7. The Council will follow the same process as the Prudential Code and so will be reporting in line with the new reporting requirements from 2023/24 other than the new liability benchmark requirement which was implemented from 2022/23.

5. LOCAL CONTEXT

5.1. At 31 March 2022 the Council’s underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), was £144.2m, while usable reserves and working capital which are the underlying resources available for investment were £86.5m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on-year change are summarised in Table 1.

Table 1: Capital Financing Summary

	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m
General Fund CFR	9.6	6.5	16.1
Housing Revenue Account CFR	6.0	(0.1)	5.9
HRA Settlement	126.3	(4.1)	122.2
Total CFR	141.9	2.3	144.2
Financed By:			
External Borrowing	126.9	(4.3)	122.6
Internal Borrowing	15.0	6.6	21.6
Total Borrowing	141.9	2.3	144.2

5.2. The General Fund CFR (and so internal borrowing) has increased as resources have been required to finance direct property investment during 2021/22, albeit mitigated in part through the application of Minimum Revenue Provision (MRP). The Housing Revenue Account (HRA) CFR and external borrowing has reduced as a result of the repayment of the maturing HRA Public Works Loan Board (PWLB) debt. No new borrowing requirement arose from expenditure incurred in the year on the housing delivery strategy.

5.3. The Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2022 and the change during the year is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m	31/03/22 Rate %
Long-term borrowing	(122.6)	4.3	(118.3)	(3.34)
Short-term borrowing	(4.3)	0.0	(4.3)	(2.56)
Total borrowing	(126.9)	4.3	(122.6)	(3.32)
Long-term investments	16.5	(0.6)	15.9	3.84
Short-term investments	25.1	21.4	46.5	0.39
Cash and cash equivalents	8.3	15.8	24.1	0.50
Total investments	49.9	36.6	86.5	1.05
Net borrowing	(77.0)	40.9	(36.1)	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash.

5.4. The reduction in net borrowing of £40.9m shown in Table 2 reflects the combination of an increase in investment balances of £36.6m as well as the repayment at maturity of borrowing of £4.3m, in line with the Council's policy on borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

6. BORROWING UPDATE

6.1. The Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

6.2. The Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB.

6.3. Further, the Council has invested in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the Council's aim of protecting reserves from high inflation.

6.4. The Council is a net borrower and as stated in the Treasury Management Strategy 2022/23, the Council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the Council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR between 2023 and 2033 and therefore, as a result, further borrowing will be considered by the Section 151 Officer over the coming months and years, if required.

6.5. The Section 151 Officer will review the current pooled fund investment prior to making any external borrowing decisions.

7. BORROWING ACTIVITY

7.1. At 31 March 2022 the Council held £122.6m of loans, a decrease of £4.3m which was a maturity in the year. The vast majority of the outstanding loans are in relation to the resettlement of the HRA in 2012/13. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing Position

	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m	31/03/22 Rate %	31/03/22 WAM* years
Public Works Loan Board	(126.9)	4.3	(122.6)	3.32	15.4
Total borrowing	(126.9)	4.3	(122.6)	3.32	15.4

* Weighted average maturity

Note: the figures in Table 3 are from the balance sheet in the Council's statement of accounts adjusted to exclude accrued interest.

7.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty 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.

7.3. Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing. In line with this strategy £4.3m of PWLB loans was allowed to mature without refinancing.

7.4. This borrowing strategy has been monitored by Arlingclose and has enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

8. TREASURY INVESTMENT ACTIVITY

8.1. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

8.2. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balances have ranged between £50.4m and £105.4m due to timing differences between income and expenditure. During 2021/22 the UK central government distributed funding through non-repayable grant schemes to support residents and small and medium-sized businesses, which resulted in more pronounced movements in the Council's liquid investment balances. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position

Investments	31/03/2021 Balance £m	Movement £m	31/03/2022 Balance £m	31/03/22 Rate %	31/03/22 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	9.1	2.6	11.7	0.42	0.03
- Secured	-	21.7	21.7	0.51	0.53
Money Market Funds	5.2	15.0	20.2	0.52	0.00
Government:					
- Local Authorities	17.0	(10.0)	7.0	0.10	0.27
- Supranational Banks	-	3.9	3.9	0.15	0.71
- UK Treasury Bills	-	3.0	3.0	0.20	0.09
- UK Gilts	-	1.0	1.0	0.28	0.31
Cash Plus Funds	2.0	-	2.0	0.67	0.01
	33.3	**37.2**	**70.5**	**0.43**	**0.24**
Long term investments					
Banks and Building Societies:					
- Secured	3.0	(2.0)	1.0	0.75	1.03
	3.0	**(2.0)**	**1.0**	**0.75**	**1.03**

Table 4: Treasury investment position

Investments	31/03/2021 Balance £m	Movement £m	31/03/2022 Balance £m	31/03/22 Rate %	31/03/22 WAM* years
High yield investments					
Pooled Property Funds**	7.6	-	7.6	3.83	N/A
Pooled Equity Funds**	3.0	-	3.0	5.15	N/A
Pooled Multi-Asset Funds**	3.0	-	3.0	4.05	N/A
	13.6	**-**	**13.6**	**4.17**	**N/A**
TOTAL INVESTMENTS	**49.9**	**35.1**	**85.0**	**1.03**	**0.25**

* Weighted average maturity, excluding pooled funds ** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2022 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash, market value adjustments and accrued interest.

8.3. The Council made a payment of £3.717m on 1 April 2021 to prepay its employer's LGPS pension contributions for one year only. By making this payment in advance the Council was able to generate an estimated saving of 2.1% (£79,735) over the year on its pension contributions.

8.4. Investment balances have increased for the reasons above set out in paragraph 8.2. The Government requested some funds to be repaid in April 2022, therefore for this reason, as well as to pay a further pre-payment of LGPS pension contributions of £3.976m on 1 April 2022 (saving the council 2.1% (£85,278) over the forthcoming year on its pensions contributions), the additional investment balances were held as short term investments at 31 March 2022, much of it being in money market funds for liquidity purposes.

8.5. The CIPFA Code and Government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income. The Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

8.6. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

8.7. In delivering investment returns, the Council has operated against a backdrop in which the UK Bank Rate was 0.10% from March 2020 with significant rises in the final four months of 2021/22. Ultra low short-dated cash rates, which were a feature since March 2020, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds (MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December 2021, February and March 2022. At 31 March 2022, the 1-day return on the Council's MMFs ranged between 0.49% - 0.57% per annum (p.a.).

8.8. Given the risk and low returns from short-term unsecured bank investments, the Council further diversified into more secure asset classes as shown in Table 4.

8.9. The Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2022 and at the same date in 2021 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)

	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2021	AA-	42%	106	0.22%
31.03.2022	AA+	46%	95	0.43%
Similar LAs	AA-	61%	43	0.46%
All LAs	AA-	60%	14	0.46%

8.10. Table 5 shows the average credit rating of the portfolio has improved from AA- to AA+; this is as a result of the further diversification into secured and government investments whilst using AAA-rated money market funds for liquidity purposes. Bail-in exposure was fairly consistent with the same time in 2021, as although the Council held greater total investment balances, a similar proportion was held over-night when compared to the position at 31 March 2021. The weighted average maturity of investments was slightly lower in comparison to the position at 31 March 2021 as the Council held lower long-term balances due to both the cashflow requirements in April 2022 as well as the availability of suitable investment options providing adequate interest return. The average rate of return (0.43%) has increased over the year as a result of the UK Bank Rate increases which have favourably impacted the short-term investment portfolio. The Council compared either similar to or favourably with the other local authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

8.11. 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 as part of its higher yielding strategy.

8.12. 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.

8.13. In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the investments in property, equity and multi-asset income funds in the Council's portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the fourth quarter of the financial year the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

8.14. In light of Russia's invasion, Arlingclose contacted the fund managers of the Council's MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

8.15. The Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets starting in March 2020 but have since recovered well. These investments are now worth more in aggregate than the initial sums invested, as shown in Table 6, 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 6: Higher yielding investments – market value performance

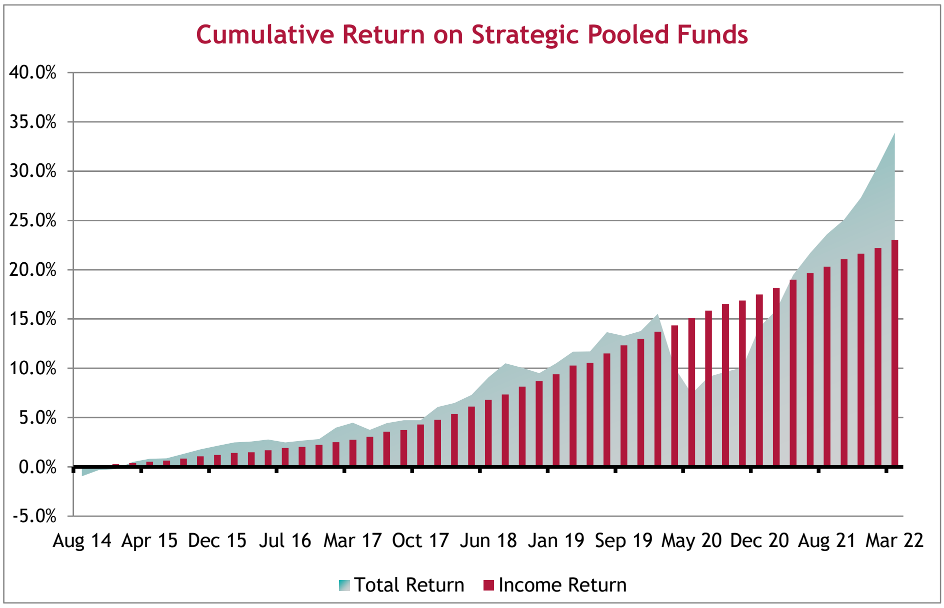
	Amount invested	Market value at 31/03/22	Gain / (fall) in capital value	
			Since purchase	2021/22
	£m	£m	£m	£m
Pooled property funds	7.6	8.7	1.1	1.2
Pooled equity funds	3.0	3.4	0.4	0.3
Pooled multi-asset funds	3.0	2.8	-0.2	-0.1
Total	13.6	14.9	1.3	1.4

8.16. The Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.12% pa (per annum) since purchase, contributing to a total return of 33.91%.

Table 7: Higher yielding investments – income and total returns since purchase

	Annualised income return	Total return
	%	%
Pooled property funds	4.00	39.22
Pooled equity funds	4.64	40.46
Pooled multi-asset funds	3.94	14.00
Total	4.12	33.91

8.17. The Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments. The cumulative total return from the Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



8.18. 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.

8.19. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.

9. FINANCIAL IMPLICATIONS

9.1. The outturn for investment income received in 2021/22 was £0.63m on an average investment portfolio of £81.98m, therefore giving a yield of 0.77%. By comparison, investment income received in 2020/21 was £0.82m on an average portfolio of £88.45m with a yield of 0.93%. The interest earning target for 2022/23 has been set based on an average investment portfolio of £70m and a return of 0.90%.

9.2. The outturn for debt interest paid (HRA) in 2021/22 matched the budget set at £4.2m.

9.3. The budget for interest payable (HRA) has been increased within the base budget for 2022/23, in reflection of increasing interest rates and anticipated loan financed expenditure on the capital programme, offset by the continuing principal repayments of the HRA settlement.

10. NON-TREASURY INVESTMENTS

10.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

10.2. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

10.3. This could include loans made to local businesses or the direct purchase of land or property and such loans and investments will be subject to the council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

10.4. The Council's existing non-treasury investments are listed in Table 8.

Table 8 – Non-treasury investments

	31/03/22 Asset value £m	31/03/22 Annual rate of return
Hythe Marina	2.54	5.96%
Saxon Inn Calmore	0.18	7.26%
Meeting House Lane	0.15	-
New Milton Health Centre	2.54	5.35%
Ampress Car Park	2.14	4.48%
The Parade Salisbury Road Totton	1.60	5.86%
1-3 Queensway New Milton	1.07	8.89%
Unit 1 Nova Business Park	0.54	6.31%
Drive -Thru Salisbury Road, Totton	1.26	5.25%
Units 1-3 27 Salisbury Road, Totton	1.90	7.88%
Total investment properties	**13.92**	**4.75%**
Lymington Town Hall	3.41	2.79%
Hardley Industrial Estate	5.60	4.66%
Total income earning properties	**9.01**	**3.95%**
Grand total	**22.93**	**4.44%**
Property Under Construction		
Employment Land at Crow Lane	**4.54**	**-**

10.5. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses and fair value movements.

11. COMPLIANCE REPORT

11.1. The Council confirms compliance of all treasury management activities undertaken during 2021/22 with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

11.2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

Table 9: Debt limits

	2021/22 Maximum £m	31/03/22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied
Total debt	130.9	122.6	184.3	201.6	✓

11.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

12. TREASURY MANAGEMENT INDICATORS

12.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

12.2. The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates.

Table 10 – Interest Rate Risk Indicator

	31/03/22 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates		
Investment	£59.1m	+/- £0.6m
Borrowing	(£0.1m)	+/- £0.0m

12.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

12.4. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 11: Refinancing rate risk indicator

	31/03/22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4%	25%	0%	✓
12 months and within 24 months	4%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	66%	100%	0%	✓

Principal sums invested for periods longer than a year

12.5. 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 total principal sum invested to final maturities beyond the period end were:

Table 12: Price risk indicator

	2021/22	2022/23	2023/24
Actual principal invested beyond a year	£14.6m	£13.6m	£13.6m
Limit on principal invested beyond a year	£40m	£35m	£30m
Complied	✓	✓	✓

12.6. The table includes investments in strategic pooled funds of £13.6m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

13. OTHER

CIPFA Consultation – IFRS 16

13.1. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022, however following a consultation CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Council intends to adopt the new standard on 1st April 2024.

14. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

14.1. None arising directly from this report.

15. RECOMMENDATIONS

Members are recommended to:

15.1. consider the performance of the treasury function detailed in this report.

Further information	Background papers
Please contact: Gemma Farley Principal Accountant Investments & Borrowing Hampshire County Council gemma.farley@hants.gov.uk Alan Bethune Executive Head of Financial (S151) and Corporate Services New Forest District Council alan.bethune@nfdc.gov.uk	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance Local Government Act 2003 SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 Treasury Management Strategy Report 2021/22 Audit Committee – 29 January 2021 Council – 25 February 2021 Treasury Management Mid-Year Monitoring Report 2021/22 Audit Committee – 29 October 2021 Treasury Management Strategy Report 2022/23 Audit Committee – 28 January 2022 Council – 21 February 2022

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AUDIT COMMITTEE – 29 JULY 2022

FINAL ACCOUNTS 2021/22 BAD DEBTS WRITE-OFF

1. RECOMMENDATIONS

1.1 That the Audit Committee;

a. note the contents of the report; and
b. agree to the change in Service Manager approval for Accounts Receivable Write -off's to £3,500

2. INTRODUCTION

2.1 This report informs Members of the total bad debts written off during the financial year 2021/22.

2.2 It is Council policy to take all practical steps to recover debts. The Council's accounting systems provide automated recovery procedures for the collection of the debts, followed where applicable, by appropriate recovery, including court.

2.3 This report is prepared in accordance with the policy for write offs approved by Cabinet.

3. WRITE-OFFS

3.1 Debts have been written off in the following services;

- Council Tax
- National Non Domestic Rates (NNDR)
- Overpaid Housing Benefit
- Sundry Income
- Housing and Garage Rents
- Parking Penalty Charges

3.2 Criteria for write off include:

- Abscond
- Liquidations and bankruptcies
- Deceased
- Small balances
- Enforcement Agent unable to collect/levy
- Foreign Vehicles

3.3 The total debt written off for 2021/22 was £642,213 (£596,290 for 2020/21). This represents 0.24% of the total income collected (0.25% for 2020/21).

3.4 The total written off by service is detailed in Appendix 1 (a comparison for values written off during 2020/21 is detailed in Appendix 2). The appendix also includes the average value of accounts written off, the write off as a percentage of annual income collected and examples of write offs criteria.

3.5 The table below details the service and the value of write ons i.e. write back of credit balances made during the 2021/22 year, together with comparative figures for 2020/21.

CATEGORY OF DEBT	**2020/21 £**	**2021/22 £**
COUNCIL TAX	5,541	47,385
NNDR	7,795	16,466
HOUSING BENEFIT incl. OVERPAID INVOICES	15	13
ACCOUNTS RECEIVABLE	Nil	127
HOUSING AND GARAGE RENTS	Nil	Nil
PARKING PENALTY CHARGES	Nil	Nil
STORES	Nil	Nil

3.6 Write ons are credited where debtors have overpaid and they cannot be traced. All reasonable avenues are explored prior to the credit being written back on. Housing Benefit write-ons are where a previous debt which has been written-off is reversed to recover the amount.

4. BAD DEBT PROVISION

4.1 The Council has made allowances for doubtful debts in the accounts based on what it believes to be a prudent but realistic level. For 2021/22, the NFDC provision is £2.718m (£2.987m in 2020/21).

4.2 The total provision made for each type of bad debt write off and the total arrears as at 31 March 2022 is also shown in Appendix 1. Members should note, the total provision figures within Appendix 1 include the NFDC provision as outlined above, plus collection fund provisions which relate to other organisations (i.e. HCC).

4.3 The bad debt provision for council tax and business rates are:

Stage	% for provision
Liability Order	50%
Final	25%
Reminder	10%
Bill	5%

Appendix 3 provides details of the workings

4.4 For Housing Benefit overpayments, a provision of 100% is made for any debt which is greater than one year and 50% where the debt is being recovered by DWP.

4.5 For Accounts Receivable a provision is made for debts which are greater than one year with an adjusted provision for rent deposit schemes and rent in advance schemes where payment plans often exceed one year.

4.6 For Housing and Garage rent a provision is worked out as follows:

Arrears (£)	% of provision
0-100	0
100-250	10
250-500	25
500-750	50
750-1,000	75
1,000+	95

A provision of 95% is made for former tenant arrears.

4.7 Due to the impact of the pandemic and the current cost of living it is expected to be challenging in 2022/23 to recover arrears brought forward from 2021/22.

5. AUTHORITY TO APPROVE

5.1 Service Managers have authority to approve write offs up to certain limits and the Council's statutory financial officer has authority to approve write offs of any limit. Details of the approval limits are shown in Appendix 4. There is one proposed change, to increase the Service Manager approval level for Accounts Receivable to £3,500 (from £1,500), in line with the other categories within this service area.

For Further Information Please Contact:

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Revenues and Benefits
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SUMMARY OF WRITE OFFS 2021/22 — APPENDIX 1

Category of Debt	Total Write Off	Number of Accounts	Average value of Account Written Off	Annual Income / Turnover	Provision Made 31/3/2022	Arrears Balance as at 31/3/2022	Write Off as % of Turnover	Reason for Write Off
	£		£	£	£	£		
Council Tax	337,123	1,146	294	139,629,000	1,843,960	4,572,000	0.2	Abscond, bankruptcy, deceased, no goods on which to levy, other, small balance.
NNDR	192,731	38	5,072	55,299,000	261,360	1,353,000	0.3	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit incl Overpaid Invoices	60,825	136	447	28,388,000	818,410	1,154,000	0.2	Abscond, bankruptcy, collection, deceased, Local Authority/DWP error, small balance.
Accounts Receivable	2,798	10	280	7,958,000	745,000	4,701,000	0.0	Abscond, bankruptcy, small balance, deceased, uneconomical to pursue.
Housing and Garage Rents	27,324	17	1,607	29,852,000	772,000	1,082,000	0.1	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, old, small balance.
Parking Penalty Charges	21,412	263	81	3,674,000	7,941	70,946	0.6	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, foreign vehicle.
Total	**642,213**	**1,610**		**264,800,000**	**4,448,671**	**12,932,946**		

SUMMARY OF WRITE OFFS 2020/21 **APPENDIX 2**

Category of Debt	Total Write Off £	Number of Accounts	Average value of Account Written Off £	Annual Income / Turnover £	Provision Made 31/3/2021 £	Arrears Balance as at 31/3/2021 £	Write Off as % of Turnover	Reason for Write Off
Council Tax	286,408	1,057	271	131,839,000	1,793,560	4,432,000	0.2	Abscond, bankruptcy, deceased, no goods on which to levy, other, small balance.
NNDR	176,876	36	4,913	40,348,000	664,180	1,498,000	0.4	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit incl Overpaid Invoices	99,373	134	742	31,729,000	997,570	1,392,000	0.3	Abscond, bankruptcy, collection, deceased, Local Authority/DWP error, small balance.
Accounts Receivable	0	0	0	6,134,000	691,500	3,116,000	0.0	Abscond, bankruptcy, small balance, uneconomical to pursue.
Housing and Garage Rents	12,786	15	852	29,318,000	755,000	1,027,000	0.0	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, small balance.
Parking Penalty Charges	20,847	281	74	2,532,000	8,922	77,816	0.8	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, deceased, foreign vehicle.
Total	**596,290**	**1,523**		**241,900,000**	**4,910,732**	**11,542,816**		

APPENDIX 3

Council Tax Arrears by Recovery Stage		% for Provision	Appropriate Provision
	Actual		
	£000		**£000**
At Liability Order Stage	3,623	50	1,812
At Final Notice Stage	44	25	11
At Reminder Stage	434	10	43
At Bill Stage (by deduction)	470	5	23
Total	4,571		**1,889**
Reduction for Court Cost Arrears			**-45**
Total			**1,844**

NNDR Arrears by Recovery Stage		% for Provision	Appropriate Provision
	Actual		
	£000		**£000**
At Liability Order Stage	406	50	203
At Reminder Stage	382	10	38
At Bill Stage (by deduction)	671	5	34
Total	1,459		**275**
Reduction for Court Cost Arrears			**-14**
Total			**261**

APPENDIX 4

SERVICE AREA	SERVICE MANAGER RESPONSIBLE	WRITE OFF / ON CRITERIA	UPPER £ LIMIT PER DEBTOR
Council Tax	Revenues & Benefits	Bankruptcy/Debt relief order Abscond Small Balance (up to £500) Deceased Bailiff unable to collect/no goods on which to levy	£3,500
Business Rates	Revenues & Benefits	Bankruptcy/Liquidation/Indiv vol agreement Abscond Small Balance (up to £500) Deceased Bailiff unable to collect/no goods on which to levy	£3,500
Housing Benefit (including Fraudulent cases)	Revenues & Benefits	Bankruptcy/Debt relief order Abscond Small Balance (up to £500) Deceased LA Error DWP Error Collection Agency unable to collect	£3,500
Housing Rents	Housing – Estates Management	Bankruptcy/Debt relief order Abscond Small Balance (£500) Deceased Collection Agency unable to collect	£3,500
Accounts Receivable	Revenues & Benefits	Bankruptcy/Indiv. Vol. Agreement / Debt Relief Order Abscond Small Balance (up to £500) Deceased Uneconomic to pursue through the court	£3,500
Penalty Charge Notices	Street Scene	Bankruptcy Abscond Deceased Bailiff unable to collect/ no goods on which to levy Foreign Vehicle	£1,500
Garages	Housing – Estates Management	Bankruptcy Abscond Small Balance Deceased	£1,500
Stores	Building Works	Obsolete stock / Damaged stock Picking Error	£1,500
Estates & Valuations	Legal / Estates	Bankruptcy Abscond Small Balance (up to £500) Deceased	£1,500
	Section 151 Officer	Any write off/on including; Partial write offs of live accounts, paying accounts, large balances, any other exceptional reason	NO LIMIT

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AUDIT COMMITTEE – 29 JULY 2022

FRAUD – ANNUAL REPORT 2021/22

1. RECOMMENDATION

1.1 It is recommended that Audit Committee note the contents of this report.

2. INTRODUCTION

2.1 The Council is committed to preventing and detecting fraud and will deal openly and forcefully with anyone who acts dishonestly. This report provides an update of the fraud activities for 2021/22.

2.2 The pandemic continued to have an impact on fraud activities during 2021/22, with interviews being suspended.

2.3 The Corporate Fraud and Compliance Officer (0.56 FTE) supported the Revenues, Benefits and Economic Development Teams with the administration of Business Support Grants and payments to those having to self-isolate.

3. FRAUD REFERRALS

3.1 In 2021/22 there have been 63 fraud referrals received relating to Housing Benefit, Council Tax Reduction or Housing. Referrals are received via Department for Work and Pensions, our website, by phone to our dedicated line, or internally from staff. The category of referral is shown within the following table:

Type of referral	No of referrals	Ongoing cases	Closed cases
Living Together	28	7	21
Undeclared Capital	2	0	2
Undeclared Earnings/Pension	16	4	12
Household composition	13	2	11
Housing Tenancy	2	1	1
Grants	2	0	2
Total Referrals	**63**	**14**	**49**

3.2 Following investigations there has been a total of £8,616.58 in Housing Benefit and £4,313.23 in Council Tax Reduction non-entitlement. Two Civil Penalties have been issued and paid.

3.3 An allegation of non-residency of a council property was received and investigated jointly with Housing, which is ongoing, and one Right To Buy application was refused following investigations, as well as a placement into emergency accommodation.

4. POLICY UPDATE

4.1 The following polices were reviewed and approved during 2021/22:

- Money laundering
- Whistleblowing
- Fraud Strategy

5. JOINT WORKING WITH THE DEPARTMENT FOR WORK AND PENSIONS (DWP)

5.1 The Council is working in partnership with the DWP on joint investigations and prosecutions whereby Council Tax Reduction fraud will be included along with DWP benefit fraud. This is voluntary for local authorities, but mandatory for the DWP where the local authority signs-up. There is no funding from DWP, nor is there a Service Level Agreement, however, there is a Data Sharing Agreement.

5.2 As any Council Tax Reduction “overpayment” will be included with the DWP overpayment, this may increase the likelihood of a sanction or prosecution. There will be no cost to the council where there is a prosecution.

5.3 Due to COVID DWP suspended investigations in 2020/21, however, this is due to resume soon.

6. NATIONAL FRAUD INITIATIVE

6.1 The council partakes in the Cabinet Office National Fraud Initiative which is a biennial exercise that matches data within and between public and private sector bodies to prevent and detect fraud. There is a legal obligation to supply data but not to undertake the exercise. We received our latest data-matches in January 2021 and we target referrals considered to be high risk of fraud.

6.2 The breakdown of data matches is as follows:

Area	No. of matches
Internal (payroll/pension/procurement)	32
Housing Estates (non-residence/deceased/right to buy)	106
Housing Options (waiting list)	16
Revenues & Benefits (non-residence/entitlement/income)	489
Finance (duplicate creditors)	195
HMRC – capital, property ownership	TBC
Business Grants	38
Total	**876**

6.3 From the matches to date, 275 have been checked, with 601 matches still to be reviewed and investigated where appropriate (high risk only).

6.4 During 2021/22 there was an additional data matching exercise on business support grants. Following further investigation two business grants totalling £20,000 were identified as ineligible and invoices have been issued to recover the sums.

7. BUSINESS SUPPORT GRANTS AND PAYMENTS TO HOUSEHOLDS

7.1 In response to the impact of the pandemic the council has administered various grants to support businesses. The application form had in-built security checks to minimise fraudulent claims. We have used Spotlight and NFI data-matching software to check eligibility to 2,005 grant applications and contacted businesses where discrepancies or criteria were not met, for example a business was insolvent or subject to a striking off notice.

7.2 Investigations were also undertaken from referrals from Economic Development to ensure eligibility. One such investigation resulted in a grant being recovered to which there was no entitlement.

7.3 We received regular updates from varying sources, including the Southern Internal Audit Partnership, on known fraudulent applications identified from across the country and checked our records.

7.4 The Test and Trace Support Payments supported those on a low income who were required to self-isolate, were unable to work from home, and would lose income as a result. The application form and process had in built security checks and one application was refused following an investigation. The Corporate Fraud Officer undertook a sample of payments to ensure accuracy of awards and found processes had been followed and payments made correctly.

7.5 The £150 Energy Rebate scheme was announced to support households in council tax bands A to D with the cost of living. In developing the application process a fraud risk review was undertaken with recommended actions to mitigate fraud and error.

8. TRAINING

8.1 We have implemented a new e-learning training module which was launched in September 2021, with an email issued to staff requesting completion. To date 330 staff have completed the training.

8.2 Information Officers were reminded of the Money Laundering policy and procedure.

8.3 There is attendance at the Hampshire Fraud Group to keep updated on any changes and to discuss training, new initiatives, and good practices.

9. FRAUD RISK REGISTER

9.1 As part of promoting a counter fraud culture, and to raise awareness, each service was asked to consider and complete a fraud risk register for their service. This meant Service Managers reviewing their service to identify potential risks of fraud, the controls in place and if any controls are required to eliminate or mitigate fraud.

9.2 Service Managers are responsible for reviewing their Fraud Risk Register as part of the annual review process to ensure accuracy and to reflect any changes to service delivery.

10. PUBLICITY

10.1 We continue to publicise fraud where appropriate and let it be known that we act on information shared with us.

11. FUTURE ACTIVITIES

11.1 We will be reviewing our website to include a central fraud landing page with links to services, for example Housing, to provide information and how to report fraud, as well as information about scams. We will also utilise social media to promote awareness.

Further Information:
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AUDIT COMMITTEE – 29 JULY 2022

CIPFA FINANCIAL MANAGEMENT CODE: ASSESSMENT OF COMPLIANCE (AGAINST THE CONSULTATION VERSION)

1. Recommendations

1.1 That the Audit Committee note the contents of this report and the actions as outlined in appendix 1.

2. Purpose of the report

2.1 This report gives the Audit Committee members an overview of the Council's compliance as against the CIPFA Financial Management Code (the consultation version).

3. Objectives

3.1 The CIPFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA FM Code therefore sets the standards of financial management for local authorities. The Code is based on a series of principles supported by specific standards and statements of practice which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long term finances of a local authority;
- manage financial resilience to meet foreseen demands on services; and
- financially manage unexpected shocks in their financial circumstances.

3.2 Each local authority must demonstrate that the requirements of the Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is a collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the leadership team.

4. The CIPFA FM Code Principles Approach

4.1 The CIPFA FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

4.2 The principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management a local authority is financially sustainable:

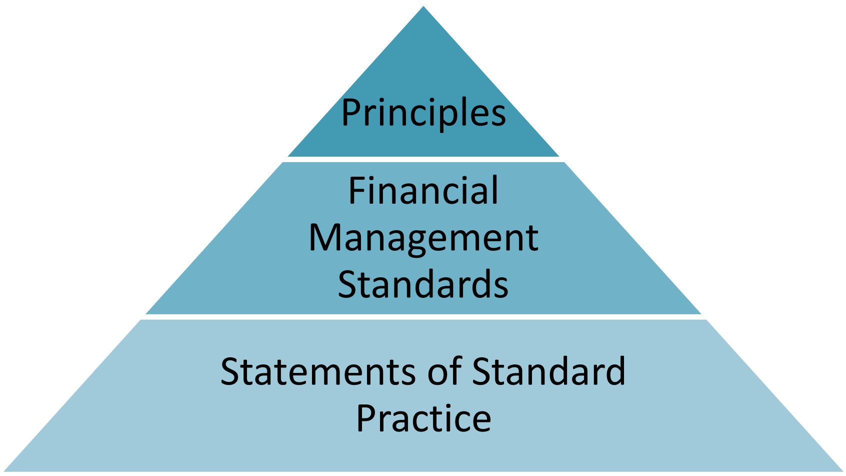
- Organisational **leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- **Accountability** - based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- Adherence to professional **Standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.

5. The Structure of the Code

5.1 To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the CIPFA FM Code translates these principles into:

- Financial Management Standards; and
- Statements of Standard Practice

5.2 All principles require to be applied and the statements of standard practice set the minimum requirement to demonstrate adherence to the Code.

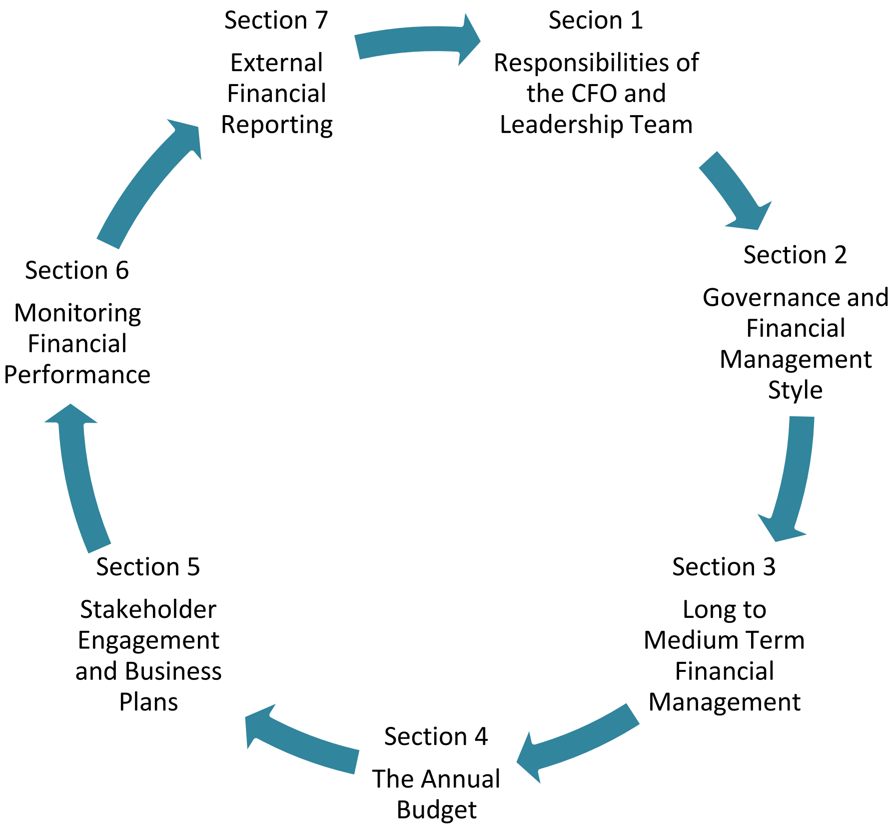


[The Structure of the Code [p7], The CIPFA Financial Management Code [Consultation Version]

6. Financial Management Standards and Statements of Standard Practice

6.1 CIPFA's expectation is that authorities' compliance will typically be demonstrated by documenting compliance with the Statements of Standard Practice which underpin each of the CIPFA Financial Management Standards.

6.2 The Authority's current assessed level of compliance in available as appendix 1, and is broken down into sections, as outlined in CIPFA's 'Virtuous Management Cycle':



[The Virtuous Financial Management Cycle [p11], The CIPFA Financial Management Code [Consultation Version]

7. Conclusion

7.1 The Chief Financial Officers assessment against the CIPFA FM code (consultation version) has identified some actions, that will be picked up during 2022/23, and will be reported back through EMT and the Audit Committee before the yearend.

Alan Bethune
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Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
	Section 1: **The Responsibilities of the Chief Finance Officer and Leadership Team**			
FM A	**The leadership team demonstrates that the services provided by the authority provide value for money.**	**N/A**	Compliance is demonstrated through the application of the Standards and Statements explored throughout this document	**N/A**
FM B	**The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government**			
B1	The Chief Finance Officer in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest	**High**	The CFO at NFDC is placed within the Executive Management Team and holds a key role in implementing and developing strategy	N/A
B2	The Chief Finance Officer must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy	**High**	All material business decisions that require Senior Management, or political approval are considered through the Council's Executive Management Team	N/A
B3 Part 1	The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.	**High**	Good financial management and the safeguarding of public funds is promoted throughout the Authority. Budget monitoring and	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
			support is promoted by the Finance Manager and Service Accountancy Team. Service Managers and those charged with financial responsibility are suitably knowledgeable and supported.	
B3 Part 2	The Chief Finance Officer should regularly review the skillsets of elected members and all officers with budget/financial management responsibility and ensure appropriate support is provided.	**Medium**	Training is conducted for new elected members following the 4 yearly cycle, but there is currently no mandatory or regular financial training programme or enhanced training for Portfolio Holders.	CFO to work with Democratic Services on a mandatory financial training pack for all members following the May 2023 election, with enhanced financial training and support for Portfolio Holders.
B4	The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose The Chief Finance Officer should regularly review the skill sets of all finance staff with senior budget/financial management responsibility and ensure ongoing appropriate support is provided. The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence.	**High**	Single Finance Lead within the Authority working closely and reporting directly to the CFO. The majority of the Finance team hold an Accounting qualification.	N/A
B5	The Chief Finance Officer must be professionally qualified and suitably experienced.	**High**	The CFO is a fellow of the Association of Chartered Certified	N/A

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
	The Chief Finance Officer must be able to demonstrate adherence to professional CPD requirements on an annual basis		Accountants, with over 15 years of Local Government Finance background. CPD requirements are complied with as part of their membership obligations.	
B6	The Chief Finance Officer should promote the highest standards of ethical behaviour in the conduct of financial management. Professionally qualified staff should demonstrate an ongoing commitment to the principles of objectivity, integrity professional behaviour, professional competence, due care and confidentiality.	**High**	Professionally qualified staff are required to adhere to the ethical standards of their professional bodies.	
B7	To enable financially informed decision making: The Chief Finance Officer should be able to provide the leadership team with sound advice on the key principles of local government finance; and The Chief Finance Officer should be able to demonstrate a sound system which ensures the authority has access to high standards of technical financial advice	**High**	The CFO, as Executive Head of Financial and Corporate Services is an integral part of the Executive Management Leadership Team and provides sound advise as part of this role. The authority also has access to specialist technical advice on matters such as Tax, Treasury Management, Pensions and Audit.	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
B8	The chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.	**High**	The affordability of the Capital Strategy is considered in the Medium Term Financial Plan.	
B9	The chief finance officer must establish the reporting and monitoring processes and integrate the treasury management indicators into the overall financial planning process.	**High**	The Council has well established financial reporting cycles. Treasury Indicators are reported through the Audit Committee, before full adoption at Council alongside the annual budget.	
B10	The Chief Finance Officer of Local Government Pension Scheme (LGPS) administering authorities satisfies the requirements of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 edition).	**NA**	The LPGS for NFDC is administered by Hampshire County Council.	
	Section 2: Governance and Financial Management Style			
C	**The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.**	**High**	Internal controls are tested annually as part of the work of Internal Audit, with the most recent audit providing substantial assurance (the highest rating).	
D	**The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)**			

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
D1	The authority maintains an effective audit committee	**High**	The Authority has an Audit Committee that meets at least three times per year.	
D2	The audit committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response.	**High**	An update on the progress as against outstanding management actions identified via the Internal Audit Plan is covered within the regular Internal Audit progress reporting.	
D3	The authority has a PSIAS conformant internal audit function	**High**	The internal audit function is provided by the Southern Internal Audit Partnership, hosted by Hampshire County Council, and is compliant with PSIAS.	
E	**The Financial Management Style of the authority supports financial sustainability**			
E1	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front-line service managers.	**High**	Financial Regulations (updated during 2022) and Instructions provide a clear and understandable framework for accountability.	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
E2	Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance.	**Medium**	Senior Management are aware of the drive to continually improve and Finance team members and Business Improvement Officers assist in this process.	Improve overview and Integration of performance and financial information with a focus on monitoring and achieving continuous improvement.
E3	Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes	**Medium**	Finance team members are engaged in strategic planning, but usually as a stage too late to help shape overarching transformation.	Ensure Finance are engaged in the new Capital and Change Board and in the emerging transformation framework.
E4	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	**High**	Budgets and financial approval limits are clearly delegated to Budget Responsible Officers. Meetings are held regularly with senior budget managers to ensure implications of decisions are understood and that managers are responsible for those decisions.	
E5	The financial management of the authority has been critically evaluated	**High**	Internal Audit reviews core financial controls on an annual basis and has also undertaken an audit of financial planning and budget	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
			monitoring and forecasting, both of which received substantial assurance.	
	Section 3: Long to Medium Term Financial Management			
F	**The authority has carried out a credible and transparent Financial Resilience Assessment.**			
F1	Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges.	**High**	The Council's MTFP is planned on a prudent basis, to take account of volatility in services and income generation.	
F2	The authority uses independent objective quantitate measures to assess the risks to its financial sustainability.	**High**	Financial sustainability is a key facet to the MTFP, and a range of financial indicators are included within the supporting strategies.	
F3	Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners.	**Medium**	Key partners are evaluated before entry into formal arrangements.	Ongoing evaluation of standards and conduct with regards to financial administration and corporate governance should be reviewed throughout contract periods.
G	**The authority has a Long-Term Financial Strategy for financial sustainability.**	**High**	This is covered within the Council's Medium Term Financial Plan	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
H	**The authority has a capital strategy aligned to its long-term financial strategy**			
H1	The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.	**High**	Condition Surveys were carried out in recent times to inform a medium-long term maintenance plan of the Council's core facilities. A separate Depot review also undertaken in recent times to help shape the requirement of the council over the medium-long term period.	
H2	The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	**High**	Data is held in the Council's asset register, and Housing system.	
I	**The authority complies with the CIPFA Prudential Code**	**High**	The Council complies to the CIPFA prudential code, and keeps abreast of changes as made from time-to-time	
J	**The authority has a rolling multi-year Medium Term Financial Plan**	**High**	This is covered within the Council's Medium Term Financial Plan	
K	**The authority has sustainable service plans that are consistent with its long-term financial strategy and the medium-term financial plan.**			

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
K1	The Medium-Term Financial Plan should make reference to other organisational plans (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning.	**High**	The Council's Medium Term Financial Plan has regard to strategies and polices and seeks to align financial resources to the Corporate Plan.	
K2	The authority has benchmarked the performance of its services against appropriate comparators.	**Medium**	Ad-hoc benchmarking is carried out, but no formal process is in place.	Seek to establish a regularised benchmarking process, utilising data and statistics available from sources such as LGInform.
K3	To inform the Leadership Team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium-Term Financial Plan.	**Medium**	This is covered within the Council's Medium Term Financial Plan as opposed to being drawn up separately	A detailed savings tracker will be devised that covers the delivery of planned savings and new income generation.
K4	The authority publishes it plans for the use of reserves over the over the period of the Medium-Term Financial Plan. The level of reserves at 31st March in any one year should not be fall below the level previously agreed. The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA's Local Authority Accounting Panel.	**High**	This is covered within the suite of financial strategies, including Investment, Capital and Treasury Management, and is ultimately brought together in the Medium Term Financial Plan.	
	Section 4: The Annual Budget			
L	**The authority complies with its statutory obligations in respect of the budget setting process**	**High**	The Council has an established budget setting cycle, including an overall scrutiny role	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
			through the Corporate Affairs panel for General Fund, the Housing Panel for the HRA. Statutory obligations are fulfilled.	
M	**The budget report includes an assessment of its consistency with the current medium term financial plan and long-term financial strategy.**			
M1	The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances.	**High**	The MTFP is continually updated and ultimately success or failure of previous initiatives feed into the budget setting for the year ahead.	
N	**The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.**	**High**	The budget setting report includes a section specifically covering this requirement.	
	Section 5: Stakeholder Engagement and Businesses Cases			
O	**The authority has engaged with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.**	**Low**	Internal stakeholder engagement is good, but more could be done with key external stakeholders.	A new approach to external consultation will be devised during 2022 for the 2023/24 budget cycle. Resident survey will get valuable insight in terms of areas of priority.
P	**The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions**			

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
P1	Option appraisal complies with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex C to CIPFA FM Code).	**Medium**	The Council's uses internally generated project evaluation tools to ensure decisions taken fit within the context of the New Forest.	Ensure process makes explicit reference to all appropriate principles.
P2	The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process.	**High**	The accounting treatment and impact is determined at the time of the decision.	
Q	**The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases**	**High**	Principles are applied and appropriate costing techniques utilised.	
	Section 6: Performance Monitoring			
R	**The authority takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.**			
R1	Timely time financial and performance information is available to managers via the appropriate systems. The systems are engineered to provide relevant data at a sufficiently accurate level. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.	**Medium**	Service Managers and Budget Responsible Officers are able to access financial information on demand.	A review of how financial data is presented will be undertaken to ensure managers are content with the style and content of information available to them.
R2	All Financial monitoring reports include: • The name of the budget holder responsible for the information presented • Accruals based financial information	**Medium**	Financial monitoring reports do not include service performance information.	Consider whether performance information can and should be included within financial reporting.

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
	• Include the approved budget against which monitoring is taking place. • A forecast for the remainder of the budget period, • Service performance information and is shown, for instance by reconciliations, to be consistent with the aggregate position for the authority.		These are reported on separately to overview and scrutiny panels, at Portfolio Level	
R3	Financial monitoring reports for high-risk budgets are: • Scrutinised by the leadership team of the organisation on (as a minimum) monthly basis. Financial monitoring reports for steady state/low risk budgets are: • Received by budget holders on a monthly basis • Received (in aggregate) by the leadership team on a regular basis (in aggregate) by the leadership team.	**High**	Service Managers review high-risk budget areas on a monthly basis.	
R4	The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.	**High**	In-year budget realignment is achieved through regular Financial Monitoring Reports.	
R5	At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead	**High**	Financial Monitoring Reports are reviewed by the Executive Management Team, ahead of publication to the Cabinet.	
R6	There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation’s delivery partnerships and collaborative arrangements.	**High**	The Council’s Contract Monitoring Officer regularly oversees the financial performance of the delivery partnerships	

Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
R7	There are appropriate arrangements in place for the project management and cost control of capital projects.	**High**	The newly established Capital and Change Board has a clear remit in terms of monitoring and reviewing spend and project delivery.	
S	**The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability**			
S1	Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council.	**Medium**	Financial Monitoring and mid-year treasury management reporting cover this.	N/A
S2	Management accounts include either a full balance sheet or an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items	**High**	Management accounts are produced in order to be suitable for the audience.	
	Section 7: External Financial Reporting			
T	**The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.**	**High**	The CFO understands this personal responsibility.	
U	**The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.**	**High**	Information is presented in a clear management format.	

AUDIT COMMITTEE – 29 JULY 2022

UPDATED RISK MANAGEMENT POLICY AND STRATEGIC RISK REGISTER

1. RECOMMENDATIONS

1.1 That Audit Committee provide their feedback to the Risk Management Policy and refreshed Strategic Risk Register, before it is presented to Cabinet (September) and onto Council.

2. INTRODUCTION AND PURPOSE

2.1 The Risk Management Policy (Appendix 1) has been created to give clarity of approach to risk management at the Council, and to helpfully define process and roles and responsibilities. This gives a structured approach to ensure risks and opportunities are reviewed across all Services, Portfolio's and Corporately, in a consistent way**.**

2.2 The Council's Strategic Risk Register (Appendix 2) has been reshaped to truly focus on the highest level of strategic risk to the Council. The previous version was driven bottom-up and was overly service focused. Although these risks were of a high level, they were not strategic in nature. The risks listed are now purely strategic and this will assist further 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 Council'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. RISK MANAGEMENT POLICY

4.1 Developing and improving public services requires opportunities to be taken whilst managing the risks involved. In recent years all sectors of the economy have focused on management of risk as the key to making organisations successful. It enables organisations to deliver their objectives whilst protecting the interests of their stakeholders. New Forest District Council is dedicated to providing its stakeholders with the best possible service.

4.2 The effective management of risk is central to providing a safe and healthy environment in which to live and work and it allows the Council to make the most of opportunities, whilst understanding and minimising the risks, where possible. This policy sets out how New Forest District Council manages its risks, and what we aim to do in the future to maintain our high standards in this area.

4.3 The Risk Management policy, in Appendix 1, shows the Risk Matrix on page 7, with scores displayed in green (low), amber (medium) and red (high):

		IMPACT			
		Low (1)	Moderate (2)	Major (3)	Significant (4)
LIKELIHOOD	Highly Likely (4)				
	Likely (3)				
	Unlikely (2)				
	Highly Unlikely (1)				

4.4 The grid, and specially the scoring thresholds behind the low, medium and high ratings is based on the Council's risk appetite, i.e. at what score is a risk considered to be low, thus requiring less monitoring and attention, and conversely, at what score is a risk considered to be high therefore requiring action plans to bring the score down to a medium level.

4.5 The proposed Matrix as included within the updated Policy shows that risks scoring a combination score:

- nine to sixteen, are high,
- four to eight, whereby the 4 is the extremity of impact or likelihood, are medium
- one to four, whereby the 4 is the middle ground between impact and likelihood, are low

5. STRATEGIC RISK REGISTER

5.1 The refreshed Strategic Risk Register (Appendix 2) captures strategic risks inherent to New Forest District Council as a Tier 2 Local Authority. It scores the risks, and includes proposed actions to mitigate these risks. The mitigation offered is closely aligned to portfolio resource and in some cases relies on working with partners to help achieve the objectives.

5.2 The Strategic Risks cover the 7 areas, listed below, which will give a more focused and targeted approach to mitigation and maximise any opportunities as they arise:

1. Supporting Communities
2. Achieving future financial resilience
3. Ensuring efficient and effective internal control, governance and compliance
4. Creating the right culture, capacity and capability
5. Ensuring robust security measures to protect the Council's data and assets from external threats
6. Ability to be agile and shift focus in response to policy and national political change
7. Delivering Council Services through adverse conditions

5.3 The Strategic Risk Register will be reviewed by EMT 6 monthly and will then be presented to Audit Committee and Cabinet. This will ensure that the strategic risks are being monitored on a frequent basis. Council will receive an update of the Strategic Risk Register on an annual basis.

5.4 The new Strategic Risk Register takes into account significant cross cutting corporate strategic risks. Portfolio risks will continue to be reported on within portfolio dashboards. Portfolio risks, which intends to manage the risk of achieving specific priorities continue to be reported on in the dashboards.

6. FINANCIAL IMPLICATIONS

6.1 There are none arising directly from this report, although strong risk management and a solid understanding of risk helps to support robust financial management.

7. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

7.1 There are no direct environmental or equality and diversity implications arising from this report.

8. DATA PROTECTION IMPLICATIONS

8.1 There are no data protection implications arising from this report.

For further information
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New Forest DISTRICT COUNCIL

Risk Management Policy

2022

Contents

1. Introduction

The Council believes that risk needs to be managed rather than avoided and that consideration of risk should not stifle innovation and creativity.

This policy outlines the approach the Council takes with regards to its responsibility to manage risks and opportunities using a structured, focused and proportional methodology. Risk management is integral to all policy and project planning and operational management throughout the Council and integrates with our corporate governance and performance management

This approach to risk management actively supports the achievement of the agreed actions, projects and programmes included as set out in the Council's adopted Corporate Plan.

2. Risk Management Policy Statement

We recognise risk management as a vital activity that underpins and forms part of our vision, values and strategic objectives, including operating effectively and efficiently, as well as providing confidence to our community. Risk is present in everything we do and it is our policy to identify, assess and manage key areas of risk on a proactive basis. We seek to embed risk management, within operations and developments at New Forest District Council. Risk management needs to be embedded throughout all processes, projects and strategic decisions. This includes procurement and contracting, and we will ensure partnerships and third-party relationships are fully compliant with the risk management policy and strategy of the Council.

Our approach to risk management needs to be fit for purpose, reflect our size and the nature of our various operations, and use our skills and capabilities to the full. Risk management is most effective as an enabling tool, so we need a consistent, communicated and formalised process across New Forest District Council. It is important to define the level of risk exposure that the Executive Management Team considers acceptable for the organisation. This creates a clear picture of which risks will threaten the ability of New Forest District Council to achieve its objectives.

The risk management policy statement and supporting documentation form an integrated framework that supports New Forest District Council in managing risk effectively. In implementing our risk management policy, we provide assurance to all stakeholders that risk identification and management plays a key role in the delivery of our Corporate Plan priorities and related objectives. We will involve, empower and give ownership to all staff to identify and manage risk. Risk management activity will be regularly supported through discussion and appropriate action by senior management.

This will include thorough and regular review and confirmation of significant risks, evaluating mitigation strategies and establishing supporting actions to reduce them to an acceptable level. Managing risks will be an integral part of both strategic and operational planning and the day-to day running, monitoring, development and maintaining of New Forest District Council.

3. Risk Management Roles and Responsibilities

The key roles and responsibilities are outlined below:

Council

- The Council shall be responsible for approving the Risk Management Policy and ensuring appropriate oversight of the Council's Strategic Risk Register and mitigation plans.

Cabinet

- Endorse the content of the Strategic Risk Register and proposed risk mitigation plans and monitor implementation.
- Own their Portfolio Dashboards and identify cross-cutting risks as well as risks arising from their areas of responsibility
- Be aware of the risk management implications of decisions.

Audit Committee

- Endorse the Risk Management Policy and Strategic Risk Register.
- Provide independent assurance to the Council of the adequacy and effectiveness of the risk management arrangements and associated control environment.

Executive Management Team (EMT)

- Provide corporate leadership of risk management throughout the Council.
- Agree an effective Council-wide framework for the management of risks and opportunities.
- Advise Members on effective risk management and ensure Members receive relevant risk information.
- Ensure that the Council complies with the corporate governance requirements relating to risk management.
- Own the Council's Strategic Risk Register and ensure that risks are reviewed as part of the wider Council's performance arrangements.
- Monitor the implementation of key mitigation plans and controls assurance programmes.
- Ensure processes are in place to report any perceived new/emerging (key) risks or failures of existing control measures.

Service and Senior Managers

- Ensure that risk management, within their areas of responsibility, is implemented in line with the Council's Risk Management Policy Statement and Strategy.
- Own their Service Dashboards and identify cross-cutting risks as well as risks arising from their areas of responsibility; prioritising and initiating mitigating actions.
- Ensure regular review of the Service Dashboards as part of wider Council performance, report risk to Management and EMT on any perceived new and emerging risks, or failures of existing control measures.
- Promote and share good practice across service areas.
- Challenge risk owners and actions to ensure that controls are operating as intended.

Insurance and Risk Officer

• Lead on the development and manage the implementation of an integrated risk management framework, strategy and process on behalf of the Council.

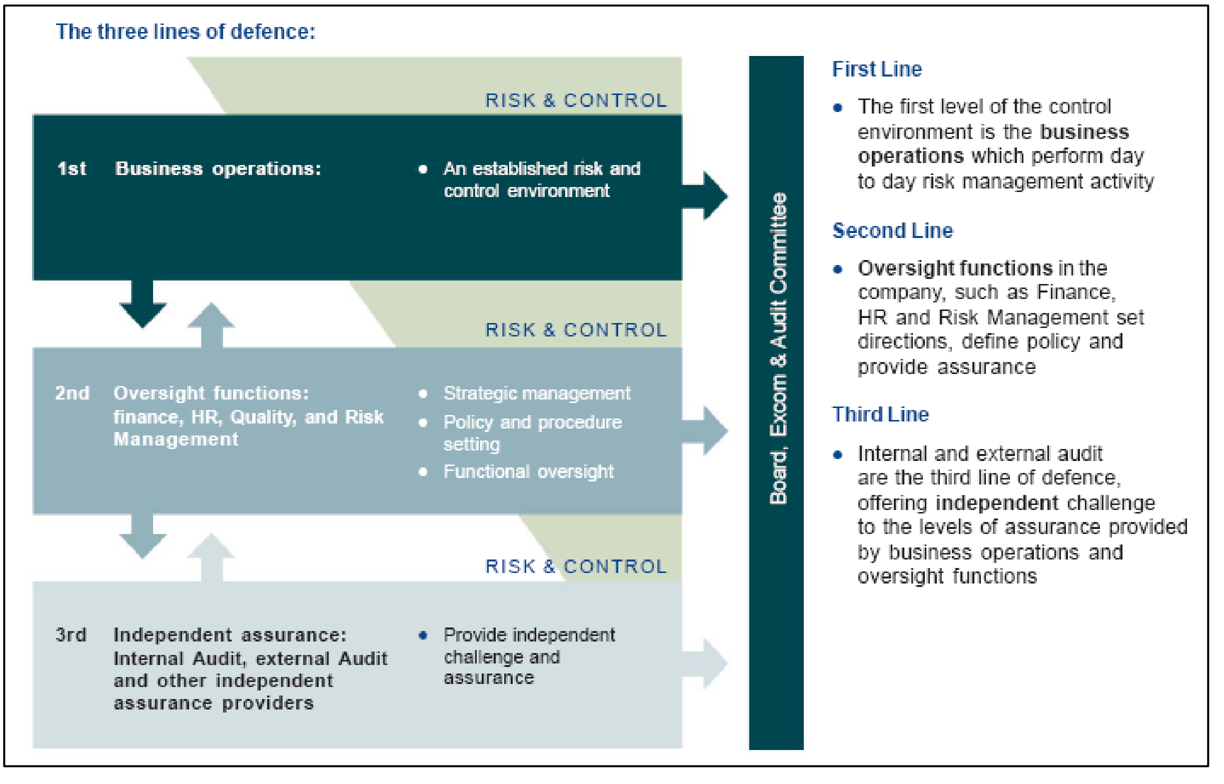
• Undertake full reviews of the Council's corporate Risk Management Policy statement and approach and update accordingly and present any revisions to EMT, Audit Committee, Cabinet and Council for endorsement.

• Use a range of resources to analyse management information to support recommendations for improvements to risk management policies and procedures.

4. Corporate Responsibility – The Three Lines of Defence

The three lines of defence concept is widely known among the insurance, audit and banking sectors as a risk governance framework. The concept can be used as the primary means to demonstrate and structure roles, responsibilities and accountabilities for decision making, risk and control to achieve effective risk management, governance and assurance.

The following table is an example of the three lines of defence concept:



First line of defence

As the first line of defence, Service/Senior Managers own and manage risks within their service area. They are also responsible for implementing appropriate corrective action to address, process and control weaknesses. Policies and procedures support Service/Senior Managers in setting best practice in their areas of responsibility. In addition, they report any perceived new and/or emerging risks or, failure of control measures to their Executive Head

Service/Senior Managers are also responsible for maintaining effective internal controls and managing risk on a day-to-day basis. They identify, assess, control and manage risks ensuring that their services are delivered in accordance with the Council's aims and objectives.

Second line of defence

The second line of defence relates to the strategic direction, policies and procedures provided by the Council's corporate functions (e.g. Finance, Legal Services, Procurement and HR). These teams are responsible for defining policies, setting direction, ensuring compliance and providing assurance.

Each department will have members of staff that belong to professional bodies, for example ACCA, which gives assurances that these corporate functions focus on delivering best practice for the council.

Third line of defence

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The aim of the Internal Audi work programme is to provide assurance to management, in relation to the business activities, systems or processes under review that the framework of internal control, risk management and governance is appropriate and operating effectively; and risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

Such risks are identified through senior management liaison and Internal Audit's own assessment of risk. inspectors and regulators also provide assurance on the management of risk and delivery of objectives.

External Audit provide an independent review of the Council's Annual Financial Report, including the Annual Governance Statement. They provide overall assurance on the accuracy of the Council's financial reporting, and provide commentary on keys areas, such as Value for Money.

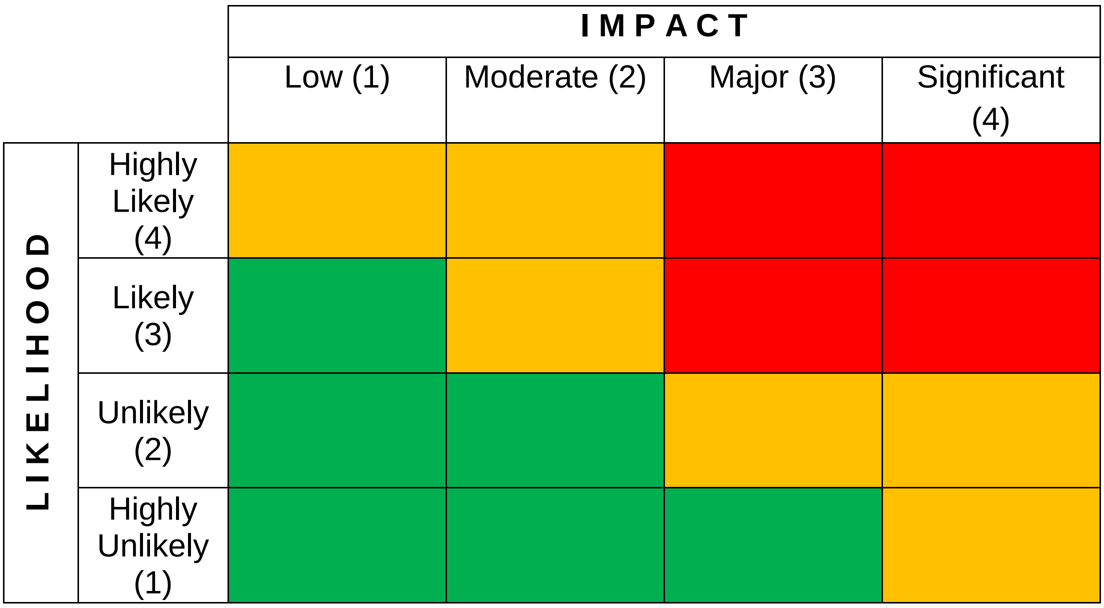
5. How Do We Evaluate Risks?

The Council evaluates its identified risks on a four-point scale on the likelihood or probability of the risk occurring and the impact caused should the risk occur being rated between low and significant.

A risk matrix is a key tool used to analyse the likelihood and impact of a risk. The Council uses a 4X4 risk matrix, with the score determined by multiplying the 'likelihood' score with the 'impact' score.

Scoring risks allows them to be compared with other risks and enables risk owners to prioritise and allocate more resources to those risks posing the greatest threat to the Council's objectives.

The Council has chosen to divide the rating into RAG bands as shown on the example risk map below:



Impact Rating

The following table provides the definitions which should be used when determining whether a risk would have a Low, Moderate, Major or Significant impact.

Impact is defined as the impact to the organisation should the risk materialise.

Each potential risk area should be considered and the highest impact scored should be the score (1-4) that is used to define the overall impact score.

	Low (1)	Moderate (2)	Major (3)	Significant (4)
Financial	Less than £20,000	£20,000 or over and less than £130,000	£130,000 or over and less than £500,000	£500,000 plus
Service Provision	Minor effect	Slightly reduced	Service suspended short term/reduced	Service suspended long term Statutory duties not delivered
Health and Safety	Minor Injury	Broken bones/illness Lost time, accident or occupational ill health	Loss of life/major illness – major injury incl broken limbs/hospital admittance. Major ill health	Major loss of life/large scale major illness
Morale	No effect	Some hostile relationship and minor non cooperation	Industrial action	Mass staff leaving/unable to attract staff
Reputation	No media attention / minor letters	Adverse local media	Adverse national publicity	Remembered for years
Government Relations	One off single complaint	Poor assessment(s)	Service taken over temporarily	Service taken over permanently

Likelihood Rating

Likelihood is the chance of a risk materialising.

It is unlikely that in many cases the probability of a risk occurring can be calculated in a statistically robust manner:

Likelihood	Probability
Highly Unlikely (1)	1% to 25% chance of occurring
Unlikely (2)	26% to 50% chance of occurring
Likely (3)	51% to 75% chance of occurring
Highly Likely (4)	76% to 100% chance of occurring

6. How We Respond To Risks?

Once a risk has been identified, the Council need to decide and agree what it is going to do about it. The recognised approaches to controlling risks are described as the five key elements or 5 T's; Tolerate, Treat, Transfer, Terminate and Take the opportunity. These are described in more detail below. It is generally accepted that where a risk can be reduced through some form of treatment or mitigation in a cost-effective fashion then it is good to do so.

As a general principal once a risk has been identified, consideration needs to be given to the five T's and that the chosen approach is seen as being cost-effective so that the control of the risk is not disproportionate to the expected benefits.

The five T's are:

Treatment	By far the greatest number of risks will be addressed in this way by using appropriate control counter measures to constrain the risk or reduce the impact or likelihood to acceptable levels. Examples include strategy, process, people or systems' improvement.
Transfer	For some risks the best response may be to transfer them and this might be done by transferring the risk to another party to bear or share the risk: e.g. through insurance, contracting or entering into a partnership. Risk can never be fully transferred.
Tolerate	Where it is not possible to transfer or treat the risk, consideration needs to be given to how the consequences are managed should they occur. This may require having contingency plans in place, for example, Business Continuity Plans which create capacity to tolerate risk to a certain degree.
Terminate	Some risks will only be treatable, or containable to acceptable levels by terminating the activity that created them. It should be noted that the option of termination of activities may be severely limited in local government when compared to the private sector; a number of activities are conducted in the local government sector because the associated risks are so great that there is no other way in which the output or outcome, which is required for the public benefit, can be achieved. This option can be particularly important in project management if it becomes clear that the projected cost/benefit relationship is in jeopardy.
Take the Opportunity	This option is not an alternative to those above; rather it is an option which should be considered whenever tolerating, transferring or treating a risk. There are two aspects to this. The first is whether or not at the same time as mitigating threats; an opportunity arises to exploit positive impact. For example, if a large sum of capital funding is to be put at risk in a major project, are the relevant controls judged to be good enough to justify increasing the sum of money at stake to gain even greater advantages? The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities. For example, a drop in the cost of goods or services frees up resources which can be re-deployed.

7. Risk Reporting

Risk management is a dynamic process, and it is vital that Dashboards are kept up to date.

New risks will be identified, and some will be managed and removed. Risks need to be reviewed and reported upon to identify if risks are changing and their impact on the Council's objectives and to gain assurance that risk management is effective. The assessment of likelihood and impact levels for existing risks/opportunities will need to be updated to take into account the management actions undertaken, and contingency arrangements will need to be reviewed in response to changing internal and/or external events.

Regular Review of Dashboards to be undertaken considering the following points:

- Does the current risk score reflect the risk's likelihood and impact at this point in time?
- Is the control environment still sufficient?
- Are the identified controls effective?
- Are there any assurances that can be provided to validate the controls effectiveness levels?
- Is the information shared with officers and are they amending and refining their actions in light of any changes?

Each Service area has a Service Plan Performance Dashboard in place, upon which there is the facility for high risks to be recorded. These will be reviewed by Service/Senior Managers on a quarterly basis to ensure that opportunities are maximised and any resource is allocated appropriately to manage any risks that affect service.

There are Portfolio Dashboards in place which will be reviewed on a regular basis by EMT before presentation to the relevant Overview and Scrutiny Panels (quarterly) to ensure that members are kept informed of key developments in each area. The Portfolio risks and mitigations relating to the Council's achievement of its objectives are recorded in the Portfolio Dashboards, so this enables members to be kept up to date with strategic risks within their areas of responsibility.

The Strategic Risk Register will be reviewed by EMT 6 monthly and then will be presented to Audit Committee and Cabinet for its adoption. Annually this will be reported to Council and will provide a statement of the risks that have been reported through the 12-month cycle. This document will give a focussed and a targeted approach to mitigation and maximise any opportunities as they arise.

8. Document history

Name of policy	Risk Management Policy
Purpose of policy	Key stakeholders must understand their role or responsibilities within the risk management process, and how risk should be managed across the Council.
Policy applies	Corporately
First issued	2022
Latest update	
Update overview	

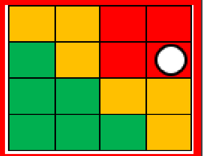
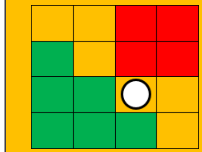
9. Definitions

Term	Definition
RAG Bands	Red, Amber or Green – Categories of Risk Ratings
EMT	Executive Management Team
SRR	Strategic Risk Register

Strategic Risk Register 2020 - 2024 • July 2022

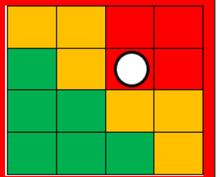
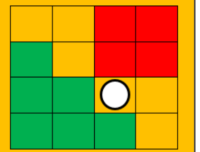
New Forest DISTRICT COUNCIL

1. Supporting Communities

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 4 = High 12 	Communities are likely to be negatively impacted due to the current rate of inflation and specifically the significant increase in fuel, food and utilities. This will create additional pressures on local businesses and job security. Communities are impacted through a shortage of housing including affordable housing Supply being delivered within the District. Lack of 5 years housing land supply/ will fail Housing Delivery Test in Nov 2022 The Council needs to do more to support communities with enhanced digital channels for transacting and communicating with the Council. There will also be some challenges around the delivery of the Freeport	A. Community focussed initiatives and funding streams B. Targeted support to voluntary and community sectors C. Engagement in key fundamental activities and discussions, eg; Solent Freeport, County Deals D. Close working partnership with the Community Safety Partnership E. Active engagement with skills advisory group F. Review and application of the Council's Local Plan, including active monitoring of the implementation G. Roll out of Digital Strategy - 'Customer First, Digital by design' H. Corporate Plan 2020-2024 I. Collaborative working with key partners as part of the Cost of Living Steering Group to implement a Poverty Action Plan J. Implementing a referral system to partners to support vulnerable residents K. Regular engagement with the voluntary sector L. Proactively working with developers/providing enabling infrastructure/ review of Local Plan M. Collaborative working through the Solent Freeport Consortium Limited, and presence on the board, and it's various sub-committees.	Likelihood 2 x Impact 3 = Medium 6 	A. Allocate resource to support Corporate Plan priorities B. Continue to work in partnership with other public sector partners to explore new and existing opportunities to deliver to residents and businesses C. Resident Survey to be completed to further understand the needs and requirements of our residents D. Full participation and regular updates on the Cost of Living Steering Group

Strategic Risk Register 2020 - 2024 • July 2022

2. Achieving future financial resilience

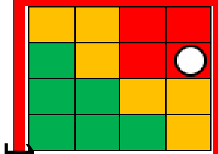
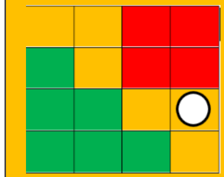
Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 3 = High 9 	Many external economic factors, including the longer-term impact of COVID-19 recovery and the current rate of inflation (cost of living) have an impact on the Council's Medium Term Financial Plan; both in terms of expenditure pressures and the ability to generate new and existing income. Other factors, more specific to the Council include pay award, levelling up, the fair funding review, the impact of a business rate reset and increased salary costs resulting from a need to align pay with the wider market. The Council may also need to do more to support communities due to the potential for closure of local businesses and job losses as a result of the cost of living crisis. Parish and town councils may also find themselves in financial difficulties and may look to the District Council for support.	A. Regular review of the Council's MTFP including reserve levels and future changes to funding B. Annual budget setting for revenue and capital including funding C. Utilisation of external financial support that provides support for funding modelling D. Regular budget monitoring reports and updates to senior officers and Members E. Effective delivery of the transformation plan that includes actions that will support the closing of future budget gaps F. Development of savings plans and invest to save initiatives G. Treasury Management Strategy to ensure the Council is acting within the prudential indicators H. Maintain appropriate level of financial reserves as contingency arrangements to provide resilience over the medium term I. Development of capital plans in accordance with Capital Strategy with full financial appraisal and revenue implications J. Working with Towns and Parishes to maximise opportunities for joint working	Likelihood 2 x Impact 3 = Medium 6 	A. Continue to keep abreast of developments in: - pay award - Fair Funding - National Business Rate Policy - Levelling Up - County Deals B. Maintain momentum and presence within the delivery of the Solent Freeport C. Develop the actions to address the Medium Term Financial Plan Deficit, and see through to delivery

DELIVERING FOR OUR COMMUNITIES

Strategic Risk Register 2020 - 2024 • July 2022

New Forest DISTRICT COUNCIL

3. Ensuring efficient and effective internal control, governance and compliance

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 4 = High 12 	As a local authority we need to show appropriate compliance and controls: - Financial Management Code - Payment Card Industry Data Security Standard Accreditation - Production and publication of various statutory documents - Effectiveness of the Capital Change and Delivery Board - Effectiveness of the new Project Management Framework	A. Annual internal audit plan developed by senior officers and members is targeted at key risks areas and responsive to new areas of risk B. External/internal audit regime C. Annual Assurance Statements compiled testing compliance with key business activities, supporting Annual Governance Statement compilation D. Range of performance indicators that monitor internal controls E. Maintenance of a range of policies that underpin the control framework – Financial Regulations, Counter Fraud Strategy, Risk Management Framework, Contract Procedure Rules coupled with staff training F. Regular reporting at Audit Committee G. Compliance with Transparency Code H. Compliance with Local Code of Corporate Governance I. Key compliance roles identified and assigned ie Section 151 Officer, Monitoring Officer, Data Protection Officer, H&S etc J. Compliance with information governance including General Data Protection Rule K. Review and update of Business Continuity Plans L. Housing Compliance reported regularly through EMT M. Information Governance Team in place with regular reporting through EMT. N. Financial Regulations and workflows built into core financial system	Likelihood 2 x Impact 4 = Medium 8 	A. Continue through information governance work programme, including updated document retention and destruction polices for all services B. Management to undertake actions from the internal audit reports C. To assess the effectiveness of the Capital Change and Delivery Board D. To assess the effectiveness of the new Project Management framework for projects to ensure appropriate Governance arrangements are in place for all projects. E. Financial Management Code – to review how the Council complies with the new code

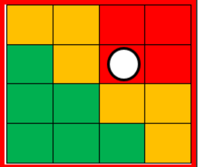
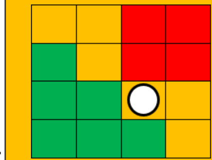
APPENDIX 2

DELIVERING FOR OUR COMMUNITIES

Strategic Risk Register 2020 - 2024 • July 2022

New Forest DISTRICT COUNCIL

4. Creating the right culture, capacity and capability

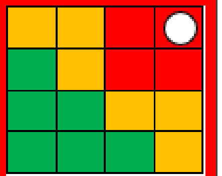
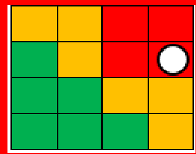
Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 3 = High 9 	The Council needs to attract, recruit and retain the high calibre of employee that it requires to fulfil its expectations in Service delivery. The current Leadership review and subsequent service reviews could create some unrest amongst the current Leadership team and other staff. There is also a risk around the time required to achieve organisational/cultural change. The emergence of Covid-19 has identified that the Council can effectively respond to a change in circumstances to ensure continuous operations. This rigor now needs to be applied to ensure this momentum continues and that positive experiences and benefits achieved as a result of recent changes are not lost, and that negative experience and challenges encountered in service delivery are addressed and improved upon.	A. Employee Forum to encourage collaboration and engender a culture that enables change and innovation B. Learning and development programme providing training, tools and techniques to develop the necessary skills C. Regular 1-1's and annual PDI process D. Investigation and identification of further collaborations that will support building capacity and capability (and resilience) including both public and corporate business E. Staff Suggestion scheme F. Allowance within the council's budget for a pay spine review, to take account of the National Living Wage (NLW) forecast to April 2024 G. Transformation framework in progress H. Communications plan (internal) allowing for regular staff engagement/progress updates I. Staff/union engagement J. Project management/capability K. Performance management and key performance indicators in place L. Staff/officer wellbeing and support M. Development of Workforce Strategy and enabling an agile workforce N. Corporate plan 2020-2024 O. Hybrid working increasing potential pool of staff P. More support and training on virtual working/managing staff Q. Further ICT training to ensure maximum return on investment	Likelihood 2 x Impact 3 = Medium 6 	A. Embedding of new Council Leadership structure B. Conduct and then progress learnings from employee survey C. Undertake leading and developing programmes including fostering leadership skills D. Keep abreast of developments in pay award negotiations, and be ready to respond accordingly. E. See through the emerging transformation framework into an approved direction of travel through the democratic process F. Develop and implement associated transformational strategies as necessary G. Continue to identify further opportunities that should be progressed in connection with improving service delivery H. Allocate resource to support Corporate Plan ambitions I. Continue to work in partnership with other public sector partners to explore new and existing opportunities to deliver to residents and businesses

DELIVERING FOR OUR COMMUNITIES

Strategic Risk Register 2020 - 2024 • July 2022

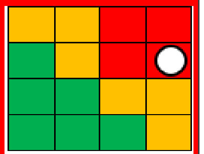
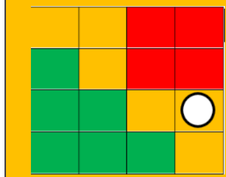
New Forest District Council

5. Ensuring robust security measures to protect the Council's data and assets from external threats

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 4 x Impact 4 = High 16 	This risk relates to the Council's ability to defend itself against the constantly evolving threat from cyber based attack. The Council, in common with other public bodies, should be regarded as a high-profile target given the impact and publicity a successful attack can have. The current insurance market for public sector cyber risks is volatile.	A. Up to date Disaster Recovery plan is in place B. Awareness training of officers and staff on the threats of cyber attacks C. Continued reviewing and tightening of existing IT Security Policy to ensure measures adapt to the changing threat, including awareness, familiarisation and training. D. Acceptable use of IT policy to ensure staff are using equipment safely and appropriately. E. Relationships with other agencies to ensure best practice is established	Likelihood 4 x Impact 3 = High 12 	A. Continued development of O365 services to improve email and anti-virus protections B. Carry out penetration test C. Ongoing refresher training on cyber risks for all staff D. To look at service provisions externally that can assist with cyber risks.

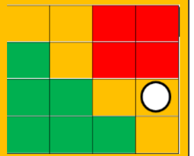
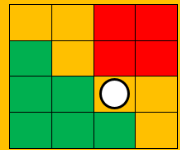
Strategic Risk Register 2020 - 2024 • July 2022

6. Ability to be agile and shift focus in response to policy and national political change

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 4 = High 12 	The significance of the current cost of living crisis and inflation, coupled with the need to repay the COVID bill may impact on government priorities and planning. Changes in national politics and general elections will have impact. Other legislation that will affect the council include: - Levelling up white paper - The environment bill - Future planning reform - Changes the regulatory landscape to housing. Managing the impact of climate change – impact on the coastline/managing the impact on the Council and communities resulting from increase in number of severe weather events/impact of increased temperature	A. Continuous monitoring of political landscape to allow for early indicators of policy change B. Prudent financial and strategy assumptions to allow for agile responses C. Corporate Plan 2020-2023 reviewed and updated where appropriate as changes identified that could impact on the Council and its plans i.e. Covid-19 D. Section 151 Officer role providing advice to the Council on current/ future financial challenges E. Reports to committee include explicit assessment of implications and therefore should identify/reflect current and future challenges F. Executive to undertake horizon scanning look out/forwards and identify possible challenges ahead G. Membership of Local Government Association etc providing information/insights to the Council H. Members' roles and responsibilities including involvement in local networks, County Council, other agencies and national forums, enabling insight to be gained and shared with the Council I. Staff membership of professional bodies enabling own development and also providing for insights through membership of challenges that may present themselves to the Council J. Officer/member forums and networks K. Review of Coastal Strategy and Actions. Climate Change Action Plan	Likelihood 2 x Impact 4 = Medium 8 	A. Making sure the workforce is aware that training is available. B. Ensuring professional training availability as this impacts departments e.g., Planning and Legal

Strategic Risk Register 2020 - 2024 • July 2022

7. Delivering Council Services through adverse conditions

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 2 x Impact 4 = Medium 8 	The following may affect the delivery of Council Services from a national and local perspective: - Natural disasters / local power outages - Workforce Strike Action - Global Pandemic - Terrorism - Riot/Rebellion - Flooding - Major pollutions of surface waters and groundwaters - Adverse Weather - Fire - Nuclear Powered Vessels - Coastal Erosion	A. Business Continuity framework and individual service continuity plans B. Threat response plans C. Emergency Planning Strategy and defined roles assigned D. Hybrid Working E. Communication with NFDC residents on all platforms e.g. social media	Likelihood 2 x Impact 3 = Medium 6 	A. Annual programme of Emergency Planning training to be established B. Review and challenge of functional Service Continuity Plan C. Review Hybrid Working D. Conclude Business Continuity Planning E. Establish a dedicated role for focussing on emergency planning and business continuity to increase capacity for service to manage this risk F. Training and exercising to establish a strategic and tactical response including an agreed rota

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EMT – 26 JULY 2022
AUDIT COMMITTEE – 29 JULY 2022

INTERNAL AUDIT PROGRESS REPORT 2022-23 – JULY 2022

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 2022-23 to 15 July 2022.

3. FINANCIAL IMPLICATIONS

3.1. The audit plan consists of 400 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 2022-23 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:
Antony Harvey
Deputy Head of Partnership (SIAP)
Tel: 07784 265289
E-mail: antony.harvey@hants.gov.uk

Background Papers:
Internal Audit Plan 22-23

Internal Audit Progress Report 2022-23

July 2022

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.*

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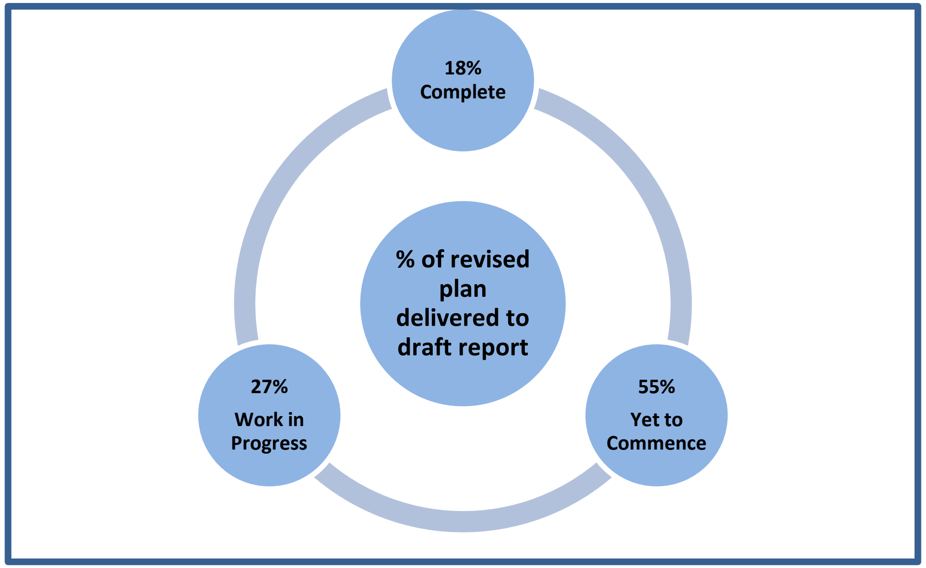
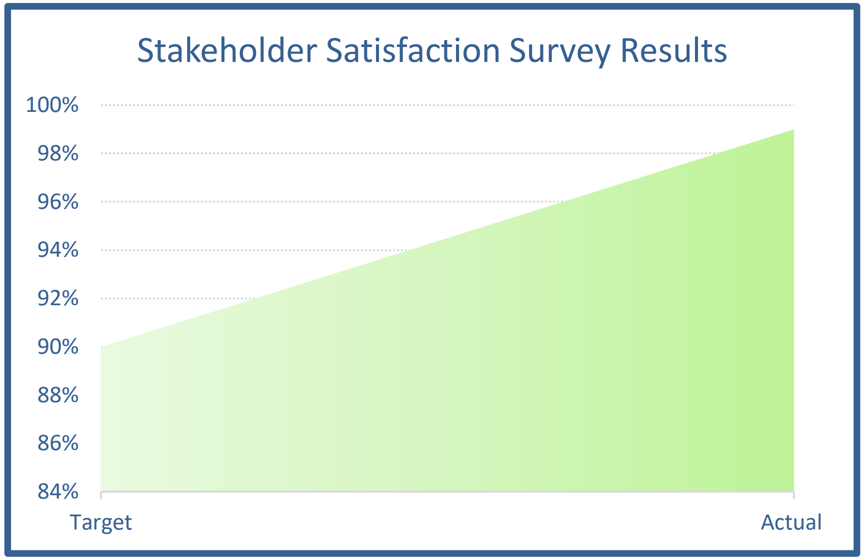
3. Performance dashboard





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

With regards to the legacy outstanding actions (including four high priority actions) relating to two audits completed by the in-house team prior to the move to SIAP, the progress made to resolve the actions are summarised as follows:-

- Payment Card Industry Data Security Standards (PCI DSS) Compliance. A report was provided to the Audit Committee (May 2022) outlining the actions required and timescales for achieving PCI DSS compliance. It was agreed with the Audit Committee that an annual update on PCI DSS compliance will be presented to Members therefore future compliance will be monitored through the project team's report.
- Business Continuity. Actions completed - EMT have agreed a Business Continuity Policy and Incident Management Plan as part of a recent joint report on Emergency Planning and Business Continuity. Services that were considered to be critical have completed Critical Activity Plans. Threat response plans for loss of ICT, Staff and Accommodation have also been developed. The internal audit plan for 2022-23 includes reviews of both Business Continuity and Emergency Planning in order to provide assurance in both these areas. If any issues requiring additional management action are identified, the actions will be tracked against these audits in future progress reports.

There are currently no other high priority, overdue actions.

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**	**9**			
Community Safety – CCTV *	**Jun 20**	**SM (EM&SS)**	**Adequate ****	**4**	**0**	**4**			
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)**	**Reasonable**	**5**	**0**	**5**			
Health and Safety (COVID-19) *	**Jun 21**	**SM (E&R)**	**Reasonable**	**2**	**0**	**2**			
Income Collection and Banking	Jun 21	SM (R&B)	Reasonable	4	2	1	1		
Procurement *	**Jun 21**	**SM (L)**	**Reasonable**	**6**	**0**	**6**			
Main Accounting and Reconciliations	Jun 21	SM (R&B)	Reasonable	3	0	0	3		
Cyber Security	Jul 21	SM (ICT)	Reasonable	8	0	5		3	
Development Management *	**Aug 21**	**EHPR&E**	**Reasonable**	**10**	**0**	**10**			
Additional Restrictions Grants *	**Sep 21**	**EHPR&E**	**Substantial**	**1**	**0**	**1**			
Coastal Management and Protection	Oct 21	SM (C)	Reasonable	4	0	0		4	
IT Disaster Recovery Planning & Business Continuity	Nov 21	SM (ICT)	Limited	13	0	12		1	
Financial Stability – Medium Term Financial Planning & Budget Monitoring	Jan 22	EHF&CS	Substantial	2	1	1			
HR Performance Management	Feb 22	SM (HR)	Reasonable	6	4	2			
Affordable Housing Development Objectives and Delivery - New Homes Strategy	Mar 22	EHPR&E	Reasonable	1	1	0			
Payroll	Mar 22	SM (HR)	Substantial	1	1	0			
Tree management	Apr 22	SM (OS)	Reasonable	19	3	15	1		
Information Security – Website	Apr 22	SM (ICT)	Reasonable	9	8	1			
Risk Management	May 22	SM (FIN)	Limited	8	4	4			
Building Control	May 22	EHPR&E	Reasonable	9	9	0			
Use of Agency Staff	Jun 22	SM (HR)	Limited	10	5	5			
Total							**5**	**12**	**0**

* 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	
Executive Head of Financial and Corporate Services (S151 Officer)	EHF&CS	Executive Head of Governance and Housing	EHG&H
Service Manager (Revenues & Benefits)	SM (R&B)	Service Manager (Housing Maintenance)	SM (HM)
Service Manager (Human Resources)	SM (HR)	Service Manager (Housing Options, Rents, Support and Private Sector Housing)	SM (HO)
Service Manager (Estates & Valuation)	SM (E&V)	Service Manager (Housing Strategy & Development)	SM (HS&D)
Service Manager (ICT)	SM (ICT)	Service Manager (Housing Compliance & Asset Management)	SM (HC&AM)
Senior Manager (Finance)	SM (FIN)	Service Manager (Elections & Business Improvement)	SM (E&BI)
Executive Head for Planning, Regeneration and the Economy	EHPR&E	Service Manager (Democratic Services)	SM (DS)
Service Manager (Policy and Strategy)	SM (P&S)	Service Manager (Estate Management & Support Services)	SM (EM&SS)
Service Manager (Development Management)	SM (DM)	Service Manager (Legal)	SM (L)
Service Manager (Coastal)	SM (C)		
Executive Head of Partnership and Operations	EHP&O		
Service Manager (Environment & Regulation)	SM (E&R)		
Service Manager (Waste & Transport)	SM (W&T)		
Service Manager (Open Spaces)	SM (OS)		

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

Use of Agency Staff		
Audit Sponsor	**Assurance opinion**	**Management Actions**
Service Manager (HR)	Limited	Low 2 / Medium 7 / High 1

Summary of key observations:

The policy for using agency workers and guidance/procedure notes are available to support managers. A multi-supplier Framework Agreement is in place which includes 15 agencies providing a range of operative, administrative and professional & technical temporary workers to match the range of skills requirements to support the Council's day-to-day operations. If the Framework Agreement suppliers are unable to provide a temporary worker to suit the Council's need (skillset or timeline) then the Council can source a temporary worker from a non-framework supplier. Under the Framework Agreement, the agencies are required to ensure all candidates have an up-to-date Disclosure Barring Service (DBS) check which is clear of convictions and are vetted to ensure they have the appropriate skills/qualifications for the role.

At the time of review, total agency expenditure for 2021-22 was approximately £480k, equivalent to 2% of budgeted staff pay. Analysis highlighted £183k of off framework expenditure, including aggregated spend of £103k and £75k with two agencies, however we were unable to ascertain documented senior management approval for recruiting off framework. We acknowledge that in certain situations e.g. refuse workers, maintaining services will be the priority; and in other situations, external factors such as the availability of workers during the COVID-19 pandemic, national shortage of HGV drivers or in other sectors where specific skills/qualifications are required, off framework spend may be required. However, the aggregated value of off framework/contract spend highlights that a contract should be in place with these providers if continuing use is anticipated.

The audit also found a general lack of awareness of the processes to follow/documentation to complete when using agency staff; an absence of formal contract/performance management of the Framework Agreement; or formal reporting specifically focussed on the overall use of agency staff to inform a strategic view on their use.

Following the audit, 5/10 management actions have been implemented, including updating procedures to reflect the process when using non-framework agencies; reminding Service Managers of their responsibilities and the processes to follow; and providing targeted training to one service area.

Periodic reporting to EMT and the HR Committee on the use of agency staff will be introduced; contract/performance management of the Framework Agreement will be formalised; and further training is planned for all Service Managers.

6. Planning & Resourcing

The Internal Audit Plan for 2022-23 was agreed by EMT and approved by the Audit Committee in March 2022. 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	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Corporate / Governance Framework								
Corporate Plan / Performance Management	SM (E&BI)	✓						Q2
Climate Emergency / Green Agenda	EHPR&E							Q3
Programme & Project Management	EHF&CS							Q3
Lease Income and Charges	SM (EV&IP)	✓	✓	✓	Jul 22			
Community Safety Partnership	SM (EM&S)	✓	✓	✓				
Statutory Safety Checks - Corporate Estate	SM (EV&IP)	✓	✓	✓				
Information Governance	ENG&H							Q4
Fraud Framework	SM (R&B)							On-going

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Business Continuity	SM (HR)							Q3
Emergency Planning	SM (E&R)							Q4
Risk Management	SM (FIN)							Q3
Human Resources								
HR – Use of Agency Staff	SM (HR)	✓	✓	✓	Jun 22	Jun 22	Limited	
HR Strategy and Monitoring Frameworks	SM (HR)							Q2
Core Financial Systems								
NNDR	SM (R&B)							Q4
Accounts Receivable and Debt Management	SM (R&B)	✓						Q2
Main Accounting and Reconciliations	SM (R&B)							Q3
Grant Certifications								
Test and Trace Payment Scheme	SM (R&B)	n/a	n/a	✓	n/a	Jun 22	n/a	6 Grants Certified
Contain Outbreak Management Fund	SM (E&R)	n/a	n/a	✓	n/a	Jul 22	n/a	Grant Certified
Information Technology								
Identity Management	SM (ICT)	✓						Q2
IT Governance – Theme TBC	SM (ICT)							Q4
IT Disaster Recovery and Business Continuity Planning (follow-up)	SM (ICT)							Q2/3
PCI DSS Advice	EHF&CS	n/a	n/a					
Portfolio Themes								
Homelessness	SM (HO)							Q3
Housing Management (new system)	SM (HO)							Q4
Housing Asset Management – Electrical Safety Checks	SM (HMAC)							Q3

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Housing Asset Management – Legionella Checks	SM (HMAC)							Q3
Open Spaces – Safety Checks	SM (G&S)	✓	✓					Q2
Leisure Contract Management	EHP&O	✓						Q2
Fleet Management (follow-up phase 2)	SM (W&T)	✓	✓	✓	Jun 22			
Environmental Health – Food Hygiene Inspections	SM (E&R)							Q3
Boundary Commission Changes	SM (E&BI)							Q4
Engineering Works	EHPR&E	✓	✓	✓				
Keyhaven	EHPR&E	✓	✓	✓	Jul 22			

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
HR – Use of Agency Staff *	Carried forward from 2021-22 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Fleet Management (follow-up phase 2) *	Carried forward from 2021-22 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Test and Trace Payment Scheme *	Government funding requiring formal certification that expenditure has been in accordance with the grant conditions.
Contain Outbreak Management Fund *	Government funding requiring formal certification that expenditure has been in accordance with the grant conditions.

*Proposed June 2022

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
None	

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.

Audit Committee Work Plan 2022/23

DATE	WORK / REPORTS
29 July 2022	External Auditor's Annual Report for the year ended 31 March 2021 (20/21) External Audit Planning Report for the year ended 31 March 2022 (21/22) Draft Annual Financial Report 21/22 Treasury Management Outturn Report for 21/22 Annual Bad Debt Write Off's Report 21/22 Annual Fraud Report 21/22 Assessment again Financial Code (Consultation version) Risk Management Update Internal Audit Progress Report 22/23
28 October 2022 (instead of 30 September 2022)	Internal Audit Progress Report 2022-23 Treasury Management Mid-Year Monitoring for 2022/23 Report
27 January 2023	External Audit Results Report for the year ended 31 March 2022 Final Annual Governance Statement 21/22 Final Annual Financial Report 21/22 RIPA Report Internal Audit Progress Report 22/23 Treasury Management Strategy Statement 23/24 Investment Strategy 23/24 Strategic Risk Register 6 Monthly Update
24 March 2023	External Auditor's Annual Report for the year ended 31 March 2022 (21/22) Internal Audit Progress Report 22/23 Internal Audit Charter 23/24 Internal Audit Plan 23/24

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