New Forest DISTRICT COUNCIL

NOTICE OF MEETING

Meeting:	**AUDIT COMMITTEE**
Date and Time:	**FRIDAY, 26 JANUARY 2024 AT 9.30 AM**
Place:	**COUNCIL CHAMBER - APPLETREE COURT, BEAULIEU ROAD, LYNDHURST, SO43 7PA**
Enquiries to:	**E-mail: andy.rogers@nfdc.gov.uk Tel: 023 8028 5070**

PUBLIC PARTICIPATION:

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

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

(a) on items within the Audit Committee's terms of reference which are not on the public agenda, when the Chairman calls the public participation item; 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, 23 January 2024.

Kate Ryan
Chief Executive

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

This agenda can be viewed online (https://democracy.newforest.gov.uk).

It can also be made available on audio tape, in Braille and large print.

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 14 September 2023 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 2021/22** (Pages 3 - 28)

To consider the External Auditor's Annual Report for 2021/22.

5. **FINAL ANNUAL FINANCIAL REPORT 2021/22** (Pages 29 - 150)

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

6. **FINAL ANNUAL GOVERNANCE STATEMENT - 2021/22** (Pages 151 - 160)

To consider the Annual Governance Statement for 2021/22.

7. **LOCAL AUDIT MARKET UPDATE - DECEMBER 2023** (Pages 161 - 164)

To receive an update from the External Auditor about Government proposals to revise the local authority audit framework.

8. **HOUSING BENEFIT AUDIT REPORT 2022/23 (PRESENTATION)** (To Follow)

To receive a presentation from KPMG on the Housing Benefit Audit Report for 2022/23.

9. **INTERNAL AUDIT PROGRESS REPORT 2023/24 (DECEMBER 2023)** (Pages 165 - 178)

To receive the Internal Audit progress report for 2023/24.

10. **TREASURY MANAGEMENT STRATEGY 2024/25** (Pages 179 - 202)

To consider the Treasury Management Strategy for 2024/25.

11. **INVESTMENT STRATEGY 2024/25** (Pages 203 - 210)

To consider the Investment Strategy for 2024/25.

12. **STRATEGIC RISK REGISTER UPDATE** (Pages 211 - 228)

To receive an update on the Strategic Risk Register.

13. **THE REGULATION OF INVESTIGATORY POWERS ACT 2000** (Pages 229 - 232)

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

14. **AUDIT COMMITTEE WORK PLAN** (Pages 233 - 236)

To consider the Audit Committee's Work Plan.

15. **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**

To:

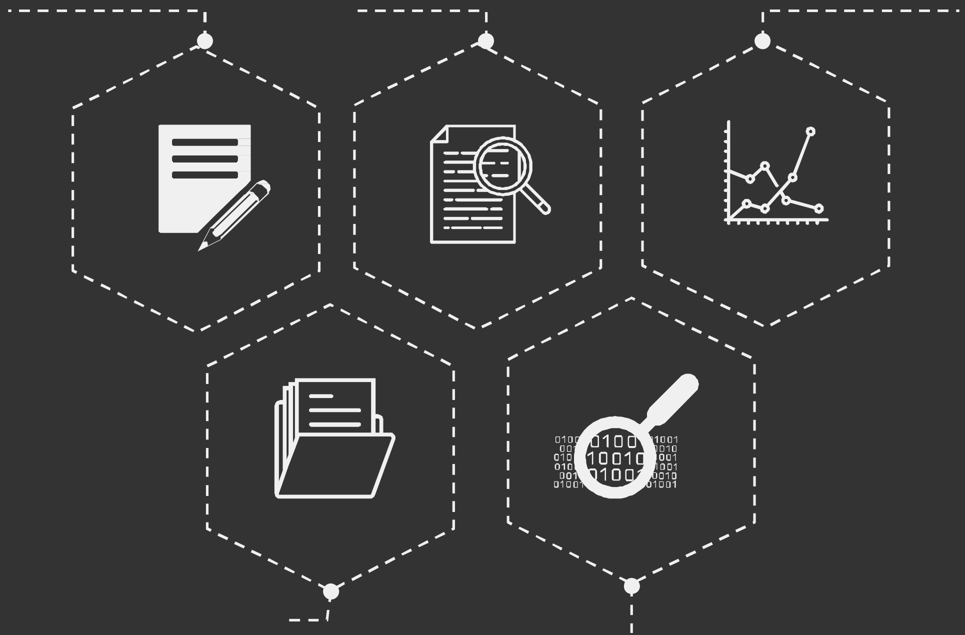
Councillors
Alan Alvey (Chairman)
Matthew Hartmann (Vice-Chairman)
Keith Craze
Jack Davies
Jacqui England

Councillors
Neil Millington
Alan O'Sullivan
Richard Young
Caroline Rackham

New Forest District Council Council Auditor’s Annual Report

Year ended 31 March 2022

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 July 2021)" 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.

Introduction

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 value for money (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 2021/22 audit work in accordance with the Audit Plan that we issued on 4 July 2022. We have complied with the National Audit Office’s (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

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, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2021/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our audit report on xx January 2024.
Going concern	We have concluded that the Chief Finance Officer'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 statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
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 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required following the Whole of Government Accounts submission.

Audit of the financial statements

Key findings

The Statement of Accounts 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 xx January 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 27 October 2023 Audit Committee meeting of New Forest District Council, and updated these in January 2024. 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. We also reported 2 areas for improvement in the control environment in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure 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 assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund. We tested a sample of Property, Plant & Equipment and Investment Property additions and noted no issues. We also tested a sample of expenditure classified as Revenue expenditure financed from capital under statute (REFCUS), and again noted no issues.
Misstatements due to fraud or error - management override of controls	Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.
Valuation of Land and Buildings (FV) and Investment Properties	Property, Plant and Equipment land and buildings (L&B) measured at Fair Value and Investment Properties (IP) 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 judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. From our sample testing by both the local team and our EY Real Estates team, we identified two assets (Salisbury Parade & Salisbury Road) with a judgemental uncorrected overstatement greater than our triviality threshold. This was due to the differences in yields applied by the valuer and our assessment.

Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Valuation of Land and Buildings (EUV)	Property, Plant and Equipment land and buildings (L&B) measured at Existing Use Value (EUV) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. We identified that all leisure centre assets held by the council had been revalued at EUV in 21/22, rather than Depreciated Replacement Cost (DRC) which had been applied previously. As these assets continue to be operational and specialised, we consider DRC the most reasonable method to apply when valuing these assets. The valuer agreed to amend this approach and revalued the assets at DRC, with the resulting change in value being agreed to be corrected by management. Of the remaining EUV assets revalued in 21/22, we identified 2 differences in regards to the valuation of a car park. This was due to: • Income used by Valuer higher than that recalculated by EY in relation to Clock income As one of the assets was a representative sample item, we projected the difference over the remaining representative population. Following discussion with management, the difference remained uncorrected with a total value of: - Judgemental difference £263k overstatement of car park (CP-13) - Projected difference £479k overstatement of car parks
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. Following the amendment of leisure centres to be valued using the DRC approach, we retested the assets and identified one (New Milton Health and Leisure) with a judgemental difference of £224k overstatement. This was due to our assessment considering a lower BCIS rate than used by the valuer was appropriate when recalculating the build cost. Following discussion with management, the difference remained uncorrected.
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 was correctly applied and properties were assessed to be appropriately classified within each beacon. Council dwelling valuations were in line with current market data. We did not identify any instances of inappropriate judgements being applied.

Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Pension Liability valuation	The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf. Impacting all unsigned audits as at 31 March 2023, we needed to consider the potential impact of the triennial valuation of the pension fund. The updated valuation has meant that Authorities have had to consider re-running their IAS 19 reporting and update the figures in the balance sheet to reflect the new Valuation. Due to the material movements in these figures, we have had to perform additional procedures. This work includes additional membership testing of the Fund level data, obtaining updated assurances from PWC as the consulting actuaries and making comparisons to our own actuarial model. We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions. The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range. We are satisfied the updated IAS 19 report has been correctly reflected in the Council's financial statements.

Value for Money

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

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

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

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 27 October 2023 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Chief Finance Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 9 to 11. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

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

The Council had arrangements in place to ensure its financial sustainability. At the end of the financial year 2021/22 the Council reported an underspend against general fund budget of £656k, and usable revenue reserves of £60.8m. The budget has taken into account the continued financial pressures, Central Government funding, Council tax increases, as well as the ongoing analysis for savings measures which is required in order to balance the budget in the medium to long term.

In future years through to 2025/26, as per the Medium Term Financial Plan, there are additional budget shortfalls totalling £1.895m, which was less than the equivalent position a year before which was £2.9m, assisted by the better settlement for 22/23 than initially expected. The future gaps is expected to be mitigated through:

- implementation of the commercial and residential property strategies to bring valuable new sources of additional income,
- focus on delivery and transformation activities,
- maximising its revenues through local taxation; and
- prudent use of budget equalisation reserves

There are acknowledged uncertainties to the medium term forecast, for example the Council documented those associated with its developing Waste Strategy, the Solent Freeport, and annual pay awards. Within its risk register it also has the risks of the one year financial settlement. We viewed its assumptions to be reasonable at the time of the budget, and that the Council has sufficient reserves and contingencies to respond to unforeseen events – such as we have subsequently seen with high inflation that has been managed during 2022/23. The Council has regularly reviews and monitors potential risks to financial resilience. This is through, for example, the medium term financial strategy and updates, and the strategic risk register.

Ongoing financial pressures in the local government sector have resulted in several councils making significant commercial investments using cheap borrowing though the 'Public Works Loan Board' (PWLB). New Forest District Council have not 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 at 31 March 2022 was £122.6m of which £4.3m is due to be repaid in the coming year (consistent with the prior year).

The 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. It purchased £5.6m investment property assets during the year, increasing its portfolio to a total of £18.5m at the year-end. This is below its allocation of £30m established in February 2017 to pursue opportunities within the district. We do not consider the investments to be unusual for a Local Government body and not indicative of a higher risk profile. The investment in its wholly owned property company is not so significant that it creates a risk to the financial sustainability of the Council. However, the Council needs to remain aware that the value of any investment may fall.

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.

We have not identified risks to NFDC that are outside the normal risks being faced by all local government bodies such as higher inflation, and we do not have concerns about how it is managing those risks.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money (continued)

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

The Council had appropriate arrangements in place to make informed decisions and manage its risks.

To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed. The register details the risks facing the Council and the impact on critical services and is managed by the Council's Executive Management Team (EMT) and Portfolio leads. This risk register is formally agreed by Cabinet. Management of the risks is an active process, including through EMT and the Council's performance management framework. We have reviewed the risk register as at March 2022, as presented to the 6 April 2022 Cabinet meeting. Compared with the prior year, the register has been updated to assess the wider context and changing environment the Council was facing, for example inclusion of the war in Ukraine on the Council and its partners and community.

There is an established internal audit function, performed by the Southern Internal Audit Partnership (SIAP) and a programme of work and an annual opinion on internal control is given by the Head of Internal Audit. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit. The Head of Internal Audit opinion for 2021/22 was 'Reasonable'. The details provided by Internal Audit for those reports given a Limited Assurance rating provide assurance that in our judgement does not indicate a significant weakness for our assessment of VFM arrangements. The ratings for Internal Audit's review of the Council's financial systems and medium term financial planning & budget monitoring were all 'Substantial Assurance'.

Financial Monitoring is achieved by regular budgetary control reports to nominated budget holders, EMT, the relevant portfolio holder, and Cabinet. Overview and Scrutiny arrangements are in place with an annual report of work carried out presented to Council. The Council's financial performance (revenue and capital) are formally reported quarterly through a Financial Monitor, and expenditure is monitored against budget through to the outturn report at year-end. It is the responsibility of the EMT and Portfolio heads to control income and expenditure within their area and to monitor performance.

The Council's Constitution is reviewed annually in May and updated as appropriate. The responsibilities, statutory requirements and code of conduct 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.

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. 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.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

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

The Council has appropriate arrangements in place.

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. The Council also produce an Annual Performance Report which enables the Council and the public to identify services or capital programmes that are, or 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 include the current and previous year performance, and a Direction of Travel indicator for annual comparison.

The Council participate in regular committee meetings and produces 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. There is 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.

One of the largest projects New Forest District Council have partnered in is the Solent Freeport. In March 2022, an outline business case was approved by Full Council at an extraordinary meeting, with a full business case submitted to Government soon after. It is noted the case was approved with Solent Freeport fully designated in December 2022. The Solent Freeport has a designated board and the Council have one seat on the board. To enable Freeport development, NFDC will draft a Development Framework to look at the overall package of measures needed to deliver development in and around the Southampton Waterfront Cluster, recognising the complex and sensitive nature of the area, and set out a plan for delivery. To resource this work, the Council will create a dedicated multi-disciplined team to assist in delivery of LDO/NSIP and to deliver some of the mitigation projects identified in the Development Framework, and drawing upon established partnership working in the area.

The Council also have representation on the Solent Local Enterprise Partnership (LEP) board, which meets approximately once every 2 months. The LEP is responsible for bringing together local businesses, local authorities and academia to determine economic priorities and promote sustainable growth. As part of this, the LEP is developing a new Economic Strategy for the Solent - Solent 2050, of which the Freeport will be a significant component of the strategy.

NFDC are also within the Partnership for South Hampshire, which is made up of 12 local authorities with the aim of collectively improving the environmental, cultural, and economic performance of the South Hampshire area. This partnership comes together quarterly through a joint committee. The partnership focuses on areas not in the remit of the LEP, particularly on sustainable housing development and environmental sustainability.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short 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's Narrative Statement in its Annual Financial Report shows the annual comparison between budgeted and actual I&E, which assists in showing whether and where there were financial pressures looking backwards. During the year its budget monitoring and forecasting identified emerging pressures. 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 financial impacts on the Council and actions to mitigate those risks. Significant risks identified include inflation and cost of living pressures including from the war in Ukraine, continuing financial uncertainties from the Covid-19 pandemic, and another one-year financial settlement from Government. These are mitigated through regular financial monitoring and robust budgeting arrangements. 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 at 31 March 2022 was £122.6m 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. It purchased £5.6m investment property assets during the year, increasing its portfolio to a total of £18.5m at the year-end. This is below its allocation of £30m established in February 2017 to pursue opportunities within the district. The long-term assets of the Council, which reflect its more commercial activity were as follows at 31/3/22: • Investment Property £18.5m (varied portfolio, including a car park, marina, industrial units, offices and retail) • Long term investments £16.8m (Includes a £0.9m investment in wholly owned housing company, £8.7m in pooled property funds and £6.2m in market or investment Funds) • Short term Investments £46.5m (bonds or short term fixed interest deposits with either banks, other financial institutions 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 investment in its wholly owned property company is not so significant that it creates a risk to the financial sustainability of the Council. (Continued…)

Appendix A – Summary of arrangements (continued)

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	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 budget for 21/22 and the Medium Term Financial Plan for 21/22 onwards have incorporated the pressures arising from Covid-19 and their continuing effects, offset by the provision of government grants. The budget takes 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. Monitoring of Treasury performance is also performed through the year. 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 the COVID-19 pandemic and one year only financial settlement are noted as a high risks, but controls including robust financial monitoring and reporting arrangements, prudent financial planning, government grants/support are noted to keep the residual risk below a Red rating
How the body plans to bridge its funding gaps and identifies achievable savings	The 2021/22 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 2022/23 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 2025/26. Options include efficiency savings, income growth through yield, 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 £25.1m (at 31/3/22) to meet specific liabilities when they fall due. (continued...)

Appendix A – Summary of arrangements (continued)

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	The Council set a balanced budget for 21/22 and also within the year for 22/23. The budget report set out the differences compared to the previous year budget, with a £5 (2.7%) increase for a Band D property. In future years through to 2025/26, as per the MTFP, there are additional budget shortfalls totalling £1.895m, which was less than the equivalent position a year before which was £2.9m, assisted by the better settlement for 22/23 than initially expected. The future gaps is expected to be mitigated through: • implementation of the commercial and residential property strategies to bring valuable new sources of additional income, • focus on delivery and transformation activities, • maximising its revenues through local taxation; and • prudent use of budget equalisation reserves There are acknowledged uncertainties to the medium term forecast, for example the Council documented those associated with its developing Waste Strategy, the Solent Freeport, and annual pay awards. Within its risk register it also has the risks of the one year financial settlement. We viewed its assumptions to be reasonable at the time of the budget, and that the Council has sufficient reserves and contingencies to respond to unforeseen events – such as we have subsequently seen with high inflation that has been managed during 2022/23.
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 resources to be spent on the areas where it is needed most. It is aligned to the budget and MTFP, 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. It contains a Vision and Values, and then priorities and key activities for each portfolio area. There is an action plan and achievement measures section, which is annually updated. The process of preparing the budget begins 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, culminating in the provisional outturn report that reports the year-end position and performance (subject to the audit of the financial statements). Quarterly monitoring includes 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.

Appendix A – Summary of arrangements (continued)

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
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	Also see the commentary above. Underneath the Corporate Plan the medium term financial strategy, annual revenue budget, capital budget, treasury management and capital investment strategies align to provide the financial framework for the Council that is consistent and aimed at achieving its corporate vision. Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	See commentary above and links to related evidence. The Council has regularly reviews and monitors potential risks to financial resilience. This is through, for example, the medium term financial strategy and updates, and the strategic risk register. We have not identified risks to NFDC that are outside the normal risks being faced by all local government bodies, and we do not have concerns about how it is managing those risks.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	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. 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. 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. Management of the risks is an active process, including through EMT and the Council's performance management framework. We have reviewed the risk register as at March 2022, as presented to the 6 April 2022 Cabinet meeting. Compared with the prior year, the register has been updated to assess the wider context and changing environment the Council was facing, for example inclusion of the war in Ukraine on the Council and its partners and community. In the prior year there were a number of strategic risks that, after mitigation, were still rated as a red (high) residual risk rating. At March 2022 the mitigations provided the Council assurance and there were no residual risks in that higher category. We note that in the subsequent year the Council has updated its risk management policy. The Council has an established anti-fraud and corruption strategy, anti-money laundering policy and whistle-blowing arrangements that are accessible on its website. 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 Head of Internal Audit. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit. 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 Head of Internal Audit opinion for 2021/22 was 'Reasonable'.

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process	The budget is derived both bottom-up and top-down. The budget for the previous year, incorporating any in-year amendments is the starting point for the next year's budget. Meetings are then held with service 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 before scrutiny by the Audit Committee. 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. For example, 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. The continuing impact of the pandemic was then reflected in the subsequent 21/22 budget. The 22/23 budget was then developed in the year, and the changes in comparison to the previous year were set out in the annual budget report. 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. At 31/3/22 the Council's reserves position is as follows per the financial statements: – General Fund: £3m – Earmarked Reserves: £25m – Capital programme reserve £12m Further reserves, held for specific or statutory purposes and not available to support the revenue budget include: – £1m HRA reserve – £17.7m covering capital receipts, community infrastructure levies and developers' contributions that are yet to be applied.
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	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. Overview and Scrutiny arrangements are in place with an annual report of work carried out presented to Council. (continued…)

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria	Findings
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 (continued)	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 Monitor, through to the outturn report at year-end. 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. The details provided by Internal Audit for those reports given a Limited Assurance rating, provide assurance that in our judgement, does not indicate a significant weakness for our assessment of VFM arrangements. The ratings for Internal Audit's review of the Council's financial systems and medium term financial planning & budget monitoring were all 'Substantial Assurance'. 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.
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	The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee report on the Council's website in advance of meetings. 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, which is regularly reviewed and updated as appropriate. It was reviewed during May of the financial year, and again in May 2022 & 2023. There is a monthly Cabinet meeting, to ensure leadership is regularly updated on NFDC's position. (continued...)

21

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria	Findings
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 (continued)	There are established Overview and Scrutiny Panels and the Audit Committee 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 overview of both internal and external audit, 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.
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 interests)	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. (continued...)

22

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria	Findings
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 interests) (continued)	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. 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. Policies and procedures are available on the Council's website, and the publication scheme summarises policies and procedures and where they can be located. See "Our policies and procedures" - New Forest District Council website.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	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.
How the body evaluates the services it provides to assess performance and identify areas for improvement	As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report. The Council also produce an Annual Performance Report which enables the Council and the public to identify services or capital programmes that are, or 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 include the current and previous year performance, and a Direction of Travel indicator for annual comparison. As we noted previously, the indicators and refreshed and reassessed annually within the Corporate Plan updates, to ensure they align to the priorities for the year.
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 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. The annual financial 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. Partnerships are included, as appropriate, within the Corporate Plan by portfolio. In particular there is a 'Partnering and Wellbeing' portfolio which has a particular emphasis on working in partnership for the benefit of the health and wellbeing of the district. Other partnerships are reflected in other portfolio plans and activities. (continued...)

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (continued)

Reporting Sub-Criteria	Findings
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 (continued)	There is also a governance structure in place to ensure performance expectations are met. One of the largest projects New Forest District Council have partnered in is the Solent Freeport. In March 2022, an outline business case was approved by New Forest DC Full Council at an extraordinary meeting, with a full business case submitted to Government soon after. It is noted the case was approved with Solent Freeport fully designated in December 2022. The Solent Freeport has a designated board and NFDC have one seat on the board. There are 12 members in total including CEO and independent chair – other seats allocated to other stakeholders including other local authorities involved in the Freeport. However, it is noted in the business case that there is an expectation to increase the board to 16 members through bringing in 4 Non-Executive Directors to strengthen and increase board capacity for the delivery phase of the Freeport. To enable Freeport development, NFDC will draft a Development Framework to look at the overall package of measures needed to deliver development in and around the Southampton Waterfront Cluster, recognising the complex and sensitive nature of the area, and set out a plan for delivery. To resource this work, the local authority will create a dedicated multi-disciplined team to assist in delivery of LDO/NSIP and to deliver some of the mitigation projects identified in the Development Framework, and drawing upon established partnership working in the area. In addition to the more recent Freeport development, NFDC have representation on the Solent Local Enterprise Partnership (LEP) board, which meets approximately once every 2 months. The LEP is responsible for bringing together local businesses, local authorities and academia to determine economic priorities and promote sustainable growth. As part of this, the LEP is developing a new Economic Strategy for the Solent - Solent 2050, of which the Freeport will be a significant component of the strategy. NFDC are also within the Partnership for South Hampshire, which is made up of 12 local authorities with the aim of collectively improving the environmental, cultural, and economic performance of the South Hampshire area. This partnership comes together quarterly through a joint committee. The partnership focuses on areas not in the remit of the LEP, particularly on sustainable housing development and environmental sustainability.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising 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 2018-2022 (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. Constitution Council Services (newforest.gov.uk) 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 there.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Related Party Transactions In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted instances of members not providing a submission in 2021/22, although it is noted the majority of members have made a timely submission. While we have been able to obtain alternative evidence to satisfy ourselves the Related Parties Transactions note is accurate, in future years we request that annual submissions are completed in all cases.	Annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.	Although it is noted that the majority of members have made a timely submission of their declaration of interests, members and senior officers will be reminded of the requirement to complete their declaration annually. Where members/senior officers leave mid year, as part of the leaving process their declaration will be received.
Financial Statements: Preparation As part of CIPFA's Cutting the Clutter thematic, we have reviewed the financial statements and identified 18 notes which can either be consolidated together to reduce duplication of information or could be removed altogether on the grounds of materiality. This information was shared with management fin March 2023 for their consideration in 22/23 accounts preparation.	Management to review the accounts and consider which notes could be consolidated together to reduce duplication of information or could be removed altogether on the grounds of materiality	Updates to the accounts have been made for 2022/23 accounts onwards

EY | Assurance | Tax | Transactions | Consultancy

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

EY-000070901-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com

AUDIT COMMITTEE – 26 JANUARY 2024

FINAL ANNUAL FINANCIAL REPORT 2021/22

1. RECOMMENDATION

1.1 That the report at Appendix 1 be considered and supported by the Members of the Audit Committee for the Chief Financial Officer and the Chairman to sign off the Annual Financial Report for 2021/22.

2. BACKGROUND

2.1 On 29 July 2022 the Audit Committee approved the draft set of key Financial Statements FOR 2021/22, ahead of passing to External Audit for their annual review of the overall Annual Financial Report.

2.2 On 24 March 2023, the committee received an update suggesting that the audit was almost complete, with a 'final' unadjusted Annual Financial Report presented to that meeting. NFDC Finance officers and the External Auditors have been working together on the review of the NFDC Annual Financial Report since that point.

2.3 The review work and the audit of the NFDC Annual Financial Report for the year ended 31 March 2022 is now completed. The main areas of amendment to the Annual Financial Report were the valuation method change for the Health and Leisure Centres, which increased their value by £11.585 million, and a triennial valuation adjustment of £6.448 million reduction in liability for the Local Government Pension Scheme.

2.4 The Annual Financial Report at appendix 1 is now fully updated and aligns to the External Auditors Opinion and Results report, as reported elsewhere on this Agenda.

For further information contact:

Alan Bethune
Strategic Director Corporate Resources & Transformation
Section 151 Officer
023 8028 5001
alan.bethune@nfdc.gov.uk

Background Papers:

None

This page is intentionally left blank

APPENDIX 1

Annual

Financial

Report

2021/2022

NEW FOREST DISTRICT COUNCIL

ANNUAL FINANCIAL REPORT - YEAR ENDED 31 MARCH 2022

CHAIRMAN OF THE COUNCIL
Councillor N Penman

LEADER OF THE COUNCIL
Councillor J Cleary

CHIEF EXECUTIVE Mrs K Ryan

CHIEF FINANCE OFFICER (S151) Mr A Bethune

CONTENTS

Notes to the Accounts (index) **Page**

STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The Authority is required to:

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

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

- approve the statement of accounts.

I confirm that these accounts were approved by Members of the Audit Committee at the meeting held on 26 January 2024.

Cllr A Alvey
Audit Committee Chairman **Date 26 January 2024**

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

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

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

- selected suitable accounting policies and then applied them consistently;

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

- complied with the Code of Practice.

The Responsible Financial (s151) Officer has also:

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

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

I certify that the statement of accounts presents a true and fair view of the financial position of New Forest District Council at 31 March 2022 and the income and expenditure for that year ended.

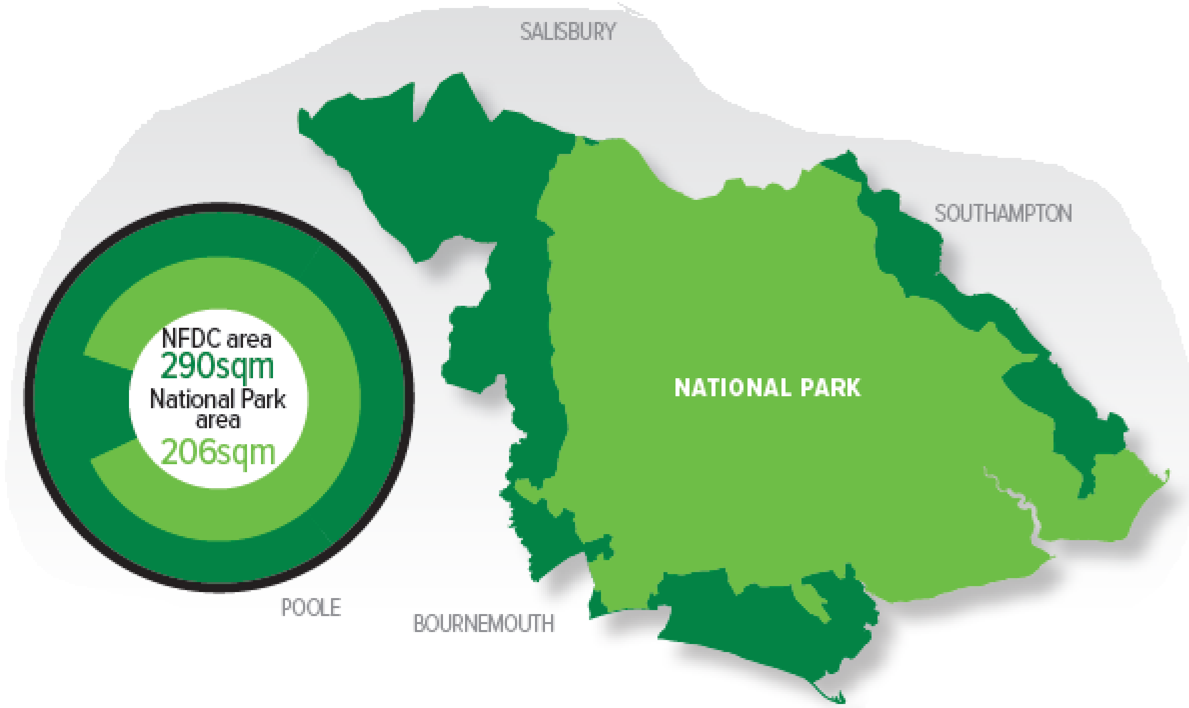
Mr A Bethune FCCA – Chief Finance Officer (s151) **Date 26 January 2024**

NARRATIVE STATEMENT

1. Foreword from the Council's Responsible Financial Officer

The New Forest

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



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

The New Forest is home to the third largest economy in Hampshire, with a total Gross Value Added of £4.4 billion. The district contains over 8,000 businesses in total and has more businesses per head than both Hampshire and the UK. 89% of businesses in the district are micro in size employing fewer than 10 people. Self-employment is relatively high at over 19% and unemployment is consistently lower than in the rest of the country. Leisure, tourism and marine along with their associated supply chains are significant employment and economic sectors within the district.

Average earnings for New Forest residents are lower than the median for the South East. This, and the high average house price, results in significant cross commuting between those who work in the forest but cannot afford to live there, and those who can afford to live within the district but work elsewhere. The district council is located between the two major conurbations of Southampton and Bournemouth.

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

NARRATIVE STATEMENT

Corporate Plan and Council Priorities
The Council is led by 60 Councillors and elections took place in May 2019. The current Political make-up of the Council is: 44 Conservative, 13 Liberal Democrat and 3 Independent.

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

The plan's vision is to secure a vibrant and prosperous New Forest, guided by the people we serve and working in partnership with others to enhance the quality of lives for all by:

- Understanding local needs and creating a balanced, healthy community who feel safe, supported and have access to services;
- Protecting the special character of the New Forest and responding pro-actively to environmental challenges; and
- Working with others to maintain a vibrant local economy that brings opportunities to the area.

Key achievements realised during 2021/22 against the Portfolios are outlined in the Annual Performance Report, reported to Cabinet in July 2022.

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

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

The latest Medium Term Financial Plan, that accompanied the setting of the 2022/23 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 2025/26. Options include efficiency savings, income growth through yield, the generation of new additional income through the Commercial and Residential Property Strategies and Council Tax increases.

NARRATIVE STATEMENT

COVID-19

2021/22 was another challenging year full of financial uncertainty as a result of the Covid-19 pandemic. Income losses and additional costs within services have been largely offset through general and specific Government support.

In the year, the Council has administered over £31 million in emergency grants for businesses, as well as council tax hardship funds and provided business support and assisted communities to reopen. This increase in workload has put pressure on capacity to deliver all services during the year. Revenue expenditure for 2021/22 is summarised in the Comprehensive Income and Expenditure Statement. This shows the costs of all the Council's services and how the net expenditure has been funded.

Group Accounts

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

Climate and Nature Emergency

During 2021/22, the Council declared a Climate and Nature Emergency. An action plan was drawn up and was subsequently adopted by the Council. A new Climate Action Group has been established, and the Council has recently undertaken a recruitment exercise for a Climate Action Manager. Work in this important area will ramp up, once the new lead officer is in post.

Utility and Cost of Living Crisis

Utility price increases and a high rate of inflation will put the Council's finances under some pressure during 2022/23. The impacts will be reported through the Council's regular Financial Monitoring cycle, as will the necessary mitigating actions. More will be covered on this within the 2022/23 Annual Financial Report.

.

2. The Statement of Accounts

The accounts for 2021/22 comprise the following statements:

- **Comprehensive Income and Expenditure Statement**

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

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

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

- **Movement in Reserves Statement**

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

- **Balance Sheet**

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

- **Cash Flow Statement**

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

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

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

- **Collection Fund**

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

3. Financial Performance during the Year

As at 31 March 2022 the Council had net assets of £351 million.

The majority of this net worth is within Council Dwellings, valued at £419 million, offset with a debt liability of £123 million. Operational Land and Buildings total £73 million, Investment Properties £18 million and other long-term assets and investments total £33 million. Cash and short-term investments total £71 million. The Council has a net pension liability of £85 million. This is explained in more detail in section 4 of this narrative statement.

Usable reserves total £61 million (a reduction of £1 million from 2020/21), with £4 million of the total being earmarked to support the visible delivery of the General Fund (£3 million) and Housing Revenue Account (£1 million).

- ## General Fund

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

The 2021/22 original net budget requirement for the General Fund was £18.868 million, a reduction of £326,000 from 2020/21. The Council's budget anticipated being funded £13.1 million from Council Tax (including a £5 increase) and £5.7 million from retained business rates. In order to support the delivery of a balanced budget over the Medium Term and to flatten out Business Rate Collection Fund adjustments, the budget allowed for £138,000 to be credited from the Budget Equalisation Reserve.

Net income increases and expenditure savings in services during the year were £501,000 (£1.123 million in services offset by direct transfers to reserves of £622,000). Adjustments of £180,000 were made to capital financing, increased interest earnings of £162,000 were received and retained business rates were £612,000 below the original budget. These variations enabled £1.583 million to be transferred to the Capital Programme Reserve, an increase of £851,000 from the original budget.

	Original Budget	Actual	Variation
	£000	£000	£000
Net Service Expenditure	18,737	17,614	(1,123)
Revenue Financing of Capital	1,265	1,085	(180)
Interest Earnings (Net)	(569)	(731)	(162)
Unringfenced Government Grants	(576)	(1,240)	(664)
Net Budget Requirement	18,857	16,728	(2,129)
Transfer to/(from) Earmarked Revenue Reserves	(298)	324	622
Transfer to/(from) Capital Programme Reserve	732	1,583	851
Contributions to/(from) Reserves	434	1,907	1,473
General Fund Budget	**19,291**	**18,635**	**(656)**
Council Tax Support Grants	(423)	(379)	44
Council Taxpayers	(13,117)	(13,117)	0
Collection Fund from previous years - Council Tax	94	94	0
Non-Domestic Rates Redistribution	(6,131)	(5,757)	374
Collection Fund from previous years - Business Rates	424	11,295	10,871
Additional Business Rates Section 31 Grant	0	(5,603)	(5,603)
Transfer to/(from) Business Rates Equalisation Reserve	0	(5,030)	(5,030)
Transfer to/(from) Budget Equalisation Reserve	(138)	(138)	0
(Increase)/Decrease in General Fund Balance	**0**	**(0)**	**(0)**

- **Housing Revenue Account**

The Housing Revenue account deficit for 2021/22 was £460,000 compared with an originally budgeted deficit of £350,000. Income was £295,000 lower than originally budgeted and there were increased levels of expenditure on Repairs and Maintenance of £662,000, offset by savings in Supervision and Management costs of £373,000 and £48,000 in capital financing costs. The balance on the account on 31 March 2022 was £1 million, after allowing for the transfer of £460,000 from earmarked reserves. The budget for 2022/23 anticipates a break-even position, after allowing for the transfer of £200,000 from reserves to cover earmarked projects.

	Original Budget	Actual	Variation
	£000	**£000**	**£000**
Income	(29,073)	(28,778)	295
Expenditure:			
Repairs and Maintenance	4,764	5,426	662
Supervision and Management	6,912	6,539	(373)
Capital Financing Costs	8,400	8,352	(48)
Other Expenditure	227	219	(8)
	(8,770)	(8,242)	528
Revenue Financing of Capital	9,120	8,702	(418)
(Surplus)/Deficit	**350**	**460**	**110**
Transfer to/(from) Earmarked Revenue Reserves	(350)	(460)	(110)
(Increase)/Decrease in Housing Revenue Account Balance	**(0)**	**(0)**	**(0)**

4. Pension Liability

The Council's Balance Sheet shows a net pension liability of £84.572 million, a reduction of £32.132 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 deficit on the scheme will be made good by increased contributions over the working lives of employees.

5. Long Term Asset Impairments/Revaluations

In 2021/22 net increases in asset values credited to the Income and Expenditure Statement were £12.310 million, but these were offset by capital expenditure not enhancing value of £10.847 million, to arrive at a net impairment of £1.463 million. This compares with a net impairment debit of £7.192 million in 2020/21. These items are reflected in the Net Cost of Services. In addition, a net £37.137 million was credited to the Revaluation Reserve (£4.863 million in 2020/21).

	2020/21	2021/22
	£000	**£000**
Income and Expenditure Statement /		
Capital Adjustment Account		
Revaluation Increases	(9,609)	(12,422)
Revaluation Decreases	1,650	112
Net Revaluation (Increases)/Decreases	(7,959)	(12,310)
Capital Expenditure not enhancing asset value	15,151	10,847
Total Income and Expenditure Statement Impairments	**7,192**	**(1,463)**
Revaluation Reserve		
Revaluation Increases	(5,688)	(37,986)
Revaluation Decreases	825	849
Total Revaluation Reserve	**(4,863)**	**(37,137)**
Total Impairments/Revaluations	**2,329**	**(38,600)**

6. Capital Expenditure

The level of approved capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original Capital Programme for 2021/22 (including the gross value of the Coastal Regional Monitoring Programme) was £36.197 million. This was initially supplemented by rephasings of £488,000 from 2020/21. A review of the programme during the year, as reported through Financial Monitoring, reduced the approved budget to £31.828 million. Actual expenditure of £25.646 million was £6.182 million less than the last approved budget.

	Original Budget	Expenditure	Variance
	£000	**£000**	**£000**
Housing Revenue Account			
Major Repairs	6,050	5,115	(935)
Public Sector Disabled Adaptations	1,000	880	(120)
Acquisition and Development Programme	13,000	6,817	(6,183)
Environmental Enhancements	200	49	(151)
	20,250	12,861	(7,389)
Environment and Regulatory Services			
Coast Protection*	2,700	1,797	(903)
Public Conveniences	375	133	(242)
	3,075	1,930	(1,145)
Finance, Corporate Services and Improvement			
Depots	2,100	16	(2,084)
Commercial Property Investment	5,000	5,794	794
Residential Property Investment	0	333	333
Smarter Working	250	0	(250)
Information Technology	0	96	96
Vehicles, Plant and Equipment	3,462	3,084	(378)
	10,812	9,323	(1,489)
Housing Services			
Private Sector Disabled Adaptations/Home Repair Loans	1,200	901	(299)
	1,200	901	(299)
Leisure and Wellbeing			
Health and Leisure Centres	0	386	386
Open Space	265	226	(39)
	265	612	347
Planning and Infrastructure			
Mitigation Schemes	595	19	(576)
	595	19	(576)
	36,197	**25,646**	**(10,551)**
Less:			
Coastal Regional Monitoring Programme*	(2,096)	(1,630)	466
	34,101	**24,016**	**(10,085)**

The actual expenditure of £24.016 million was financed by:

	£000	%
Capital Reserve	2,655	11.05
Revenue Contributions to Capital	386	1.61
Loan - General	7,583	31.58
Capital Receipts	2,779	11.57
Grant	1,666	6.94
Developers' Contributions	246	1.02
Other (HRA Repairs and Maintenance)	8,701	36.23
	24,016	**100.00**

7. Funding of Future Capital Expenditure

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

As at 31 March 2022 the Council had useable reserves/receipts of £44.007 million for capital expenditure purposes (Earmarked Reserves £11.729 million, Capital Programme Reserve £12.004 million, Developers' Contributions and Community Infrastructure Levy £12.378 million, Capital Grants Unapplied £2.001 million and Capital Receipts Reserve £5.895 million). These reserves may be supplemented by loans raised under Prudential Borrowing, grants, new capital receipts and contributions from the revenue accounts.

The approved original capital expenditure budget for 2022/23 is £42.074 million, including £24.900 million of schemes to be funded from Housing Revenue Account resources. The estimated total resources for 2022/23 will be sufficient to finance the Council's planned expenditure.

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

8. Current Economic Climate / Future Service Delivery

The Council's General Fund balance reserve as shown within these 2021/22 accounts and as included in the setting of the 2022/23 budget is £3 million and is available to support the budget and delivery of services in any given year. Other General Fund earmarked reserves total £13.095 million. The Housing Acquisitions and Development Reserve is £11.729 million and the Housing Revenue Account balance is £1 million. In addition, the Housing Revenue Account ICT reserve is £240,000 as at 31 March 2022.

The Council's Medium Term Financial Plan as adopted in February 2022 included a forecast on the latest expectations with regards to Retained Business Rate income, pay and price expenditure pressures, and laid out areas of work underway that would make a significant contribution towards achieving a balanced budget over the Medium Term.

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

9. National Non Domestic Rates (Business Rates)

During 2021/22 the Government granted business rates relief to retail, hospitality and leisure services and compensated Councils for these reliefs with additional Section 31 grant. The legislation that governs Collection Fund accounting means that these reliefs result in a deficit in the Collection Fund in the year, which will not be charged to the Council's General Fund until 2022/23 but the additional S31 grant is credited to the Council's General Fund in 2021/22, resulting in an inflated year end General Fund position. The reliefs are shown as a deficit within the overall negative Collection Fund Adjustment Account reserve balance of £5.906 million and £6.327 million has been transferred to a new Business Rates Reserve to be drawn down in 2022/23 to offset the charge from the Collection Fund in that year.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 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		8,886	(2,171)	6,715
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		76,352	(52,102)	24,250
24,767	(28,097)	(3,330)	Housing Revenue Account		21,037	(28,742)	(7,705)
107,755	**(82,690)**	**25,065**	**Cost of Services**		**97,389**	**(80,844)**	**16,545**
			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	(1,628)	
	(843)		Other Investment Income			(768)	
2,242			Net interest on the net defined benefit liability/(asset)	43	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**				**3,397**
			Taxation and Non-Specific Grant Income				
	(19,339)		Council Tax Income (incl. Parish precepts)			(20,036)	
	(5,942)		Non-Domestic Rates Income and Expenditure	45		(5,095)	
	(6,816)		Unringfenced Government Grants	45		(1,619)	
	(3,714)		Capital Grants and Contributions	45		(4,104)	
		(35,811)	**Total Taxation and Non-Specific Grant Income**				**(30,854)**
121,497	(121,593)	**(96)**	**(Surplus)/Deficit on the Provision of Services**	5	111,362	(117,755)	**(6,393)**
	(4,863)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			(37,137)	
11,276			Re-measurement of the defined benefit liability/(asset)	43		(40,575)	
		6,413	**Other Comprehensive Income and Expenditure**				**(77,712)**
		6,317	**Total Comprehensive Income and Expenditure**				**(84,105)**

Total Comprehensive Income and Expenditure has moved by £90.422 million between 2020/21 and 2021/22. The reasons for this are detailed in Note 6. The Council adopted a new Portfolio structure in 2021/22, therefore the 2020/21 prior year comparators have been restated.

Mr A Bethune FCCA – Chief Finance Officer (S151) Date 26 January 2024

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	958	6,715
People and Places	3,116	490	3,606
Planning, Regeneration and Infrastructure	2,084	1,045	3,129
General Fund	19,597	4,653	24,250
Housing Revenue Account	(7,841)	136	(7,705)
Cost of Services	**11,756**	**4,789**	**16,545**
Total Other Operating Expenditure	6,667	(2,148)	4,519
Total Financing and Investment Income and Expenditure	2,750	647	3,397
Total Taxation and Non-Specific Grant Income	(26,750)	(4,104)	(30,854)
(Surplus)/Deficit on the Provision of Services	**(5,577)**	**(816)**	**(6,393)**
Other Comprehensive Income and Expenditure	12,338	(90,050)	(77,712)
Total Comprehensive Income and Expenditure	**6,761**	**(90,866)**	**(84,105)**
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)**		
Restated 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)**		

See Note 5 for further analysis. The Council adopted a new Portfolio structure in 2021/22, therefore the 2020/21 prior year comparators have been restated.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Programme Reserve	Capital Receipts Reserve	Capital Grants Unappled	Community Infrastructure Levy Unapplied	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000		£000	£000	£000	£000
Balance at 31 March 2020	**(3,000)**	**(19,314)**	**(1,000)**	**(10,297)**	**(4,618)**	**0**	**(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	0	**(96)**	**0**	**(96)**
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	**0**	**6,413**	**6,413**
Total Comprehensive Income and Expenditure	**586**	**0**	**(682)**	**0**	**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**	**0**	**(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**	**0**
(Increase) / Decrease in Year	**0**	**(12,372)**	**0**	**(1,846)**	**1,047**	**0**	**(786)**	**(361)**	**(14,318)**	**20,635**	**6,317**
Balance at 31 March 2021	**(3,000)**	**(31,686)**	**(1,000)**	**(12,143)**	**(3,571)**	**0**	**(5,998)**	**(4,608)**	**(62,006)**	**(204,853)**	**(266,859)**
Movement in reserves during 2021/22											
(Surplus)/deficit on the provision of services	170	0	(6,563)	0	0	0	0	0	**(6,393)**	**0**	**(6,393)**
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	**0**	**(77,712)**	**(77,712)**
Total Comprehensive Income and Expenditure	**170**	**0**	**(6,563)**	**0**	**0**	**0**	**0**	**0**	**(6,393)**	**(77,712)**	**(84,105)**
Adjustments between accounting basis and funding basis under regulations (note 8)	5,200	0	7,954	0	(2,324)	(2,001)	(1,025)	(182)	**7,622**	(7,622)	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**5,370**	**0**	**1,391**	**0**	**(2,324)**	**(2,001)**	**(1,025)**	**(182)**	**1,229**	**(85,334)**	**(84,105)**
Transfers to/(from) earmarked reserves (notes 9/10)	(5,370)	6,622	(1,391)	139	0	0	0	0	**0**	**0**	**0**
(Increase) / Decrease in Year	**0**	**6,622**	**0**	**139**	**(2,324)**	**(2,001)**	**(1,025)**	**(182)**	**1,229**	**(85,334)**	**(84,105)**
Balance at 31 March 2022	**(3,000)**	**(25,064)**	**(1,000)**	**(12,004)**	**(5,895)**	**(2,001)**	**(7,023)**	**(4,790)**	**(60,777)**	**(290,187)**	**(350,964)**

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	73,495	
2,437		Vehicles, Plant and Equipment	11	4,509	
3,064		Infrastructure	11	2,771	
537		Community Assets	11	537	
3,286	461,977	Assets Under Construction	11	3,986	504,130
	12,384	Investment Property	12		18,463
	17,120	Long-Term Investments	14		16,922
	2,712	Long-Term Debtors	15		3,449
	494,193	**Total Long-Term Assets**			542,964
		Current Assets			
25,053		Short-Term Investments	16	46,530	
267		Inventories	17	282	
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**			79,831
	542,895	**Total Assets**			**622,795**
		Current Liabilities			
(4,346)		Short-Term Borrowing	20	(4,345)	
(27,435)		Short-Term Creditors	21	(60,025)	
	(31,781)	**Total Current Liabilities**			(64,370)
		Long-Term Liabilities			
(122,605)		Long-Term Borrowing	22	(118,304)	
(2,968)		Provisions	23	(4,020)	
(1,401)		Capital Grants - Receipts in Advance	24	0	
(577)		Developers' Contributions - Receipts in Advance	25	(565)	
(116,704)		Net Pensions Liability	43	(84,572)	
	(244,255)	**Total Long-Term Liabilities**			(207,461)
	266,859	**Net Assets**			**350,964**
		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	
0		Capital Grants Unapplied	27	2,001	
5,998		Community Infrastructure Levy Unapplied	28	7,023	
4,608	62,006	Developers' Contributions Unapplied	28	4,790	60,777
		Unusable Reserves			
46,595		Revaluation Reserve	29	83,282	
286,484		Capital Adjustment Account	30	296,045	
(90)		Financial Instruments Revaluation Reserve	31	1,386	
444		Deferred Capital Receipts Reserve	32	476	
(116,704)		Pensions Reserve	33	(84,572)	
(11,283)		Collection Fund Adjustment Account	34	(5,906)	
(593)	204,853	Accumulating Absences Adjustment Account	38	(524)	290,187
	266,859	**Total Reserves**			**350,964**

Mr A Bethune FCCA – Chief Finance Officer (S151) Date 26 January 2024

CASH FLOW STATEMENT

2020/21 £000		Notes	2021/22 £000
(96)	Net (surplus) or deficit on the provision of services		(6,393)
(22,408)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(28,880)
2,165	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	5,580
(20,339)	Net cash flows from Operating Activities		(29,693)
20,685	Investing Activities	36	32,014
9,329	Financing Activities	37	(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)

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and the Service Reporting Code of Practice 2021/22 supported by International Financial Reporting Standards (IFRS).

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

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

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

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

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

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

iii) Cash and Cash Equivalents

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

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

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

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

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

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

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

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

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

v) Charges to Revenue for Non-Current Assets

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

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

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

vi) Contingent Assets

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

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

vii) Contingent Liabilities

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

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

viii) Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

NOTES TO THE ACCOUNTS

Post Employment Benefits

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

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

<u>The Local Government Scheme</u> is accounted for as a defined benefits scheme:

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

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

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

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

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

Re-measurements comprising

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

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

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

ix) Events after the Balance Sheet Date

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

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

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

x) Exceptional Items

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

xi) Financial Instruments

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

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

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

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

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

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

Fair value through profit and loss – all other financial assets

xii) Foreign Currency Translation

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

xiii) Government Grants and Contributions

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

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

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

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

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

xiv) Heritage Assets

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

xv) Intangible Assets

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

xvi) Inventories

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

xvii) Investment Property

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

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

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

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

xviii) Leases

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

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

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

The Council as Lessee

Finance Leases

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Operating Leases

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

xix) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2021/22 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

which are identified separately within the Finance, Investment and Corporate Services Portfolio.

xx) Property, Plant and Equipment

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

Recognition

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for:

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

* Non-HRA dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

* HRA Dwellings – componentisation applied and depreciated according to the average remaining useful life expectancies.

* vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.

* infrastructure – coast protection - straight-line allocation over 20 years.
  land drainage and public lighting - straight-line allocation over 40 years.

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

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

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

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

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

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

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

Type of Asset	Remaining Useful Asset Life at 31 March 2022
Council Dwellings	Up to 60 years
Council Garages	60 years
Depots	60 years
Public Conveniences	Between 1 and 60 years
Offices	Between 50 and 60 years
Cemeteries	Indefinite
Health and Leisure Centres	60 years
Equipment	Up to 19 years
Coastal Protection Works	Up to 11 years
Land Drainage Works	Up to 23 years
Public Lighting Works	Up to 21 years
Residential Dwellings	An average of 46 years
Investment Properties	50+ years

xxi) Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

xxii) Private Finance Initiative (PFI) and Similar Contracts

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

xxiii) Provisions

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

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

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

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

xxiv) Reserves

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

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

xxv) Revenue Expenditure Funded from Capital Under Statute

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

xxvi) Value Added Tax (VAT)

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

xxvii) Fair Value Measurements

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

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

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

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

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

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

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

The standards that may be relevant for additional disclosures that will be required in future financial statements in respect of accounting changes that are introduced in the 2022/23 Code are:

Annual improvements to IFRS Standards 2018-2020. The annual IFRS improvement programme notes 4 changed standards:

- IFRS 1 (First- time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS16)

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

3. JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

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

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

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

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

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

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

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

4. UNCERTAINTIES RELATING TO ASSUMPTIONS AND ESTIMATES USED

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Doubtful Debt Allowances	The Council has made allowances for doubtful debts of £2.718 million in 2021/22 (£2.987 million in 2020/21) based on what it believes to be a prudent but realistic level. The allowances are based on: Council Tax and Non-domestic rate payers – ranges from 5% of debts at bill stage to 50% of debts at Liability Order stage. Sundry Debtors including Overpaid Housing Benefits -100% of debts over 1 year. Housing Rents - Former tenants 95%, current tenants, various percentages ranging from 0% on debts up to £100 and 95% on debts over £1,000.	If debt collection rates were to deteriorate or improve, a 5% change in the allowances would require an adjustment of £136,000 (£149,000 in 2020/21).

NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions' liability of changes in individual assumptions are detailed in Note 43. During 2021/22, the Council's actuaries advised that the net pension liability had decreased by £2.641 million due to estimates being corrected, as a result of experience and reduced by £26.202 million due to updating of the assumptions used in the calculations.
Accumulating Absences	The calculated figure is comprised of annual leave entitlement and flexi/lieu time. The carried forward leave on the system has been used to calculate the accrual for annual leave. The number of days taken in flexi leave/lieu time has been used as the base for calculating the accrual at the end of the relevant year.	The accumulated absences amount recorded for 2021/22 is £524,000. A 5% increase in the accrual would amount to £26,200. This would not impact on the usable reserves of the Council.
Business Rates Appeals Provision	The provision of £3.400 million made by the Council is its 40% share of an overall provision of £8.499 million provision made in the Collection Fund. The overall figure is based on a national estimate of 3.6% successful appeals on the gross rateable value, less appeals already settled and adjusted for major appeals that have been notified by the Valuation Office as being in hand and likely to be successful, but not yet settled.	The Council would be impacted by circa 20% of any under or over provision, but any loss would be restricted to a reduction in resources of £2.362 million before Safety Net Grant arrangements apply.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Housing Stock Valuation	The Council adopts the Beacon methodology to annually revalue the Housing stock owned by the Council. The method adopted divides Towns and Parishes across the District into 5 pools, with a single pool being used to inform the Beacon indices each year on a cyclical basis. The pools were revised during 2017/18 to include Towns and Parishes across the District, rather than being too heavily weighted to a specific geographical area. Each year, it is recognised that the Beacon indices may well result in differing valuations when making a comparison against the national house price benchmark.	Over the 5 year period of valuation, the methodology does result in a fair market average valuation being carried in the Council's balance sheet. In any one year however, depending on the pool used to inform the Beacon indices, a variation can occur against the Land Registry house price benchmark. In 2021/22, the NFDC Beacon indices totaled 9.3%, whereas the South East benchmark totaled 1.2%. The resultant difference in these figures equates to circa £32.8 million.
Property, Plant and Equipment	The Council carries out a rolling programme of valuations for PPE and £479 million of assets were valued in 2021/22 Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £4.79 million. If the useful life of assets is reduced, depreciation increases and the carrying value of the asset falls. It is estimated that the annual depreciation charge for PPE would increase by £172,000 if the useful lives were reduced by one year.
Investment Properties	The Council values its investment properties annually and the fair value at 31 March 2022 was £18.5 million.	A 1% change in the valuation of investment properties would change the reported value by £185,000.
Britain leaving the European Union: asset values and pension liability	There is a high level of uncertainty about the implications of Britain leaving the European Union. The assumption has been made that any outcome arising from the transition, or on-going sticking points will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly.	Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

5. NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

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

Adjustments for Capital Purposes

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

Net Change for Pensions Adjustments

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

Other Differences

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

The Council adopted a new Portfolio structure in 2021/22, therefore the 2020/21 prior year comparators have been restated.

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

Adjustment between Funding and Accounting Basis	Adjustment for Capital Purposes	Net Change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
2021/22:				
Business, Tourism and High Streets	0	63	0	**63**
Environment and Coastal Services	104	633	(9)	**728**
Finance, Investment and Corporate Services	111	635	(13)	**733**
Housing and Homelessness Services	1	559	0	**560**
Leader	0	79	(3)	**76**
Partnering and Wellbeing	(426)	1,410	(26)	**958**
People and Places	191	298	1	**490**
Planning, Regeneration and Infrastructure	0	1,052	(7)	**1,045**
General Fund	(19)	4,729	(57)	**4,653**
Housing Revenue Account	(1,158)	1,306	(12)	**136**
Net Cost of Services	**(1,177)**	**6,035**	**(69)**	**4,789**
Other Income and Expenditure from the Expenditure and Funding Analysis	(50,637)	(38,166)	(6,852)	(95,655)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(51,814)**	**(32,131)**	**(6,921)**	**(90,866)**
Restated 2020/21:				
Business, Tourism and High Streets	0	35	3	**38**
Environment and Coastal Services	2,067	348	34	**2,449**
Finance, Investment and Corporate Services	422	419	35	**876**
Housing and Homelessness Services	17	303	27	**347**
Leader	0	63	6	**69**
Partnering and Wellbeing	400	991	79	**1,470**
People and Places	(59)	216	11	**168**
Planning, Regeneration and Infrastructure	0	608	51	**659**
General Fund	2,847	2,983	246	**6,076**
Housing Revenue Account	3,858	731	67	**4,656**
Net Cost of Services	**6,705**	**3,714**	**313**	**10,732**
Other Income and Expenditure from the Expenditure and Funding Analysis	(14,591)	13,518	10,875	9,802
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(7,886)**	**17,232**	**11,188**	**20,534**

Expenditure and Income Analysed by Nature:

2020/21		2021/22
£000	**Expenditure**	**£000**
31,644	Employee benefits expenses	31,107
56,631	Other services expenses	55,090
2,727	Support Service recharges	2,476
16,798	Depreciation, amortisation and impairment	8,868
6,516	Interest Payments	6,579
6,519	Precepts and Levies	6,667
662	Payments to Housing Capital Receipts Pool	575
121,497	**Total Expenditure**	**111,362**
	Income	
(43,126)	Fees, charges and other service income	(43,657)
(1,072)	Gain on the disposal of assets	(2,723)
(2,020)	Interest and investment income	(3,333)
(19,339)	Income from council tax	(20,036)
(56,036)	Government grants and contributions	(48,006)
(121,593)	**Total Income**	**(117,755)**
(96)	**(Surplus) or Deficit on the Provision of Services**	**(6,393)**

Segmental Income:

	Government Grant and Other Income	Fees, Charges and Other Service Income	Total
2021/22:	**£000**	**£000**	**£000**
Business, Tourism and High Streets	0	(3)	**(3)**
Environment and Coastal Services	(588)	(5,520)	**(6,108)**
Finance, Investment and Corporate Services	(29,545)	(2,017)	**(31,562)**
Housing and Homelessness Services	(2,274)	(3,022)	**(5,296)**
Leader	(2)	(3)	**(5)**
Partnering and Wellbeing	(274)	(1,897)	**(2,171)**
People and Places	(4,325)	(589)	**(4,914)**
Planning, Regeneration and Infrastructure	(179)	(1,864)	**(2,043)**
General Fund	(37,187)	(14,915)	**(52,102)**
Housing Revenue Account	0	(28,742)	**(28,742)**
	(37,187)	**(43,657)**	**(80,844)**
Restated 2020/21:			
Business, Tourism and High Streets	0	(2)	**(2)**
Environment and Coastal Services	(302)	(4,695)	**(4,997)**
Finance, Investment and Corporate Services	(33,451)	(1,701)	**(35,152)**
Housing and Homelessness Services	(1,604)	(3,047)	**(4,651)**
Leader	(11)	(5)	**(16)**
Partnering and Wellbeing	(174)	(2,795)	**(2,969)**
People and Places	(3,860)	(978)	**(4,838)**
Planning, Regeneration and Infrastructure	(160)	(1,808)	**(1,968)**
General Fund	(39,562)	(15,031)	**(54,593)**
Housing Revenue Account	0	(28,097)	**(28,097)**
	(39,562)	**(43,128)**	**(82,690)**

6. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Total Comprehensive Income and Expenditure Statement has a net income position of £84.105 million in 2021/22, a movement of £90.422 million from the £6.317 million net expenditure position in 2020/21. The main reasons for the variation, most of which do not impact on usable resources, are as follows:

	2020/21	2021/22	Variation
	£000	£000	£000
Depreciation and Revaluation/Impairment of Non Current Assets	8,448	339	(8,109)
Capital Grants and Contributions	(4,696)	(5,250)	(554)
Revenue Expenditure Funded from Capital	998	1,147	149
Payments to the Housing Pooled Capital Receipts	662	575	(87)
(Gains)/Losses on Non Current Asset Disposals	(1,072)	(2,723)	(1,651)
Movements in value of Investment Properties	150	(456)	(606)
Changes in Fair Value of Investments	(1,132)	(1,476)	(344)
Pension Fund Actuarial (Gains)/Losses	11,276	(40,575)	(51,851)
Other IAS19 Pension Adjustments	5,958	8,443	2,485
(Surplus)/Deficit arising from the revaluation of Property, Plant and Equip (Revaluation Reserve)	(4,863)	(37,137)	(32,274)
Other Items	314	(70)	(384)
Items Not Affecting Council Tax / Housing Rents	**16,043**	**(77,183)**	**(93,226)**
Equipment Purchases	249	143	(106)
Dwellings Depreciation	8,703	8,701	(2)
Non-Ringfenced Government Grants	(12,758)	(6,714)	6,044
Interest Payable and Similar Charges	4,264	4,172	(92)
Investment Income	(843)	(768)	75
Other Items	(9,341)	(12,456)	(3,115)
Items Affecting Council Tax / Housing Rents	**(9,726)**	**(6,922)**	**2,804**
Total Comprehensive Income and Expenditure	**6,317**	**(84,105)**	**(90,422)**

7. EVENTS AFTER THE REPORTING PERIOD

The draft key Accounting Statements were approved by the Audit Committee on 29 July 2022 and the full Financial Report then published, which was approved by the Audit Committee on 24 March 2023. The audited full Financial Statements were presented to the Audit Committee and approved by the Chairman of that Committee and the Chief Finance Officer s151 on 26 January 2024.

Events taking place after the date the statements were presented to the Audit Committee are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for any events which took place after 31 March 2022.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2021/22	Usable Reserves							
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	(1,342)	(3)	0	0	(8,701)	0	0	10,046
Revaluation Gains / (Losses) on Property, Plant and Equipment	817	11,036	0		0	0	0	(11,853)
Capital Expenditure not enhancing value	(968)	(9,879)	0		0	0	0	10,847
Movements in the market value of Investment Properties	460	(4)	0	0	0	0	0	(456)
Expected Credit Loss on Investments	1	0	0	0	0	0	0	(1)
Movement in the Fair Value of Investments	1,476	0	0	0	0	0	0	(1,476)
Capital grants and contributions applied	1,101	576	0	0	0	0	0	(1,677)
Revenue expenditure funded from capital under statute	(1,147)	0	0	0	0	0	0	1,147
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(63)	(2,795)	0	0	0	0	0	2,858
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Provision for the financing of capital investment	1,085	4,182	0	0	0	0	0	(5,267)
Capital expenditure charged against the General Fund and HRA balances	2,109	932	0	0	0	0	0	(3,041)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	3,127	315	0	(2,001)	0	(1,025)	(416)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0	234	(234)

NOTES TO THE ACCOUNTS

2021/22	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	Usable Reserves							
	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	261	5,319	(5,580)	0	0	0	0	0
Transfer of cash proceeds from non PPE assets	41	56	(97)	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,779	0	0	0	0	(2,779)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(575)	0	575	0	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	34	(1)	0	0	0	0	(33)
Adjustments primarily involving the Major Repairs Reserve:								
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	0	8,701	0	0	(8,701)
Adjustments primarily involving the Pension Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(10,447)	(2,692)	0		0	0	0	13,139
Employer's pensions contributions and direct payments to pensioners payable in the year	3,459	865	0		0	0	0	(4,324)
Health and Leisure Contractor Payment to Fund	371	0	0		0	0	0	(371)

2021/22	Usable Reserves							
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the Collection Fund Adjustment Account:								
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	5,376	0	0	0	0	0	0	(5,376)
Adjustments primarily involving the Accumulating Absences Adjustment Account:								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	58	12	0	0	0	0	0	(70)
Total Adjustments	**5,200**	**7,954**	**(2,324)**	**(2,001)**	**0**	**(1,025)**	**(182)**	**(7,622)**

NOTES TO THE ACCOUNTS

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

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

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

9. EARMARKED RESERVES

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

	Balance 1 April 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance 31 March 2021	Transfers Out 2021/22	Transfers In 2021/22	Balance 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Building Control Surplus	(44)	0	(127)	**(171)**	0	(87)	**(258)**
Business Rates Equalisation	(1,775)	0	(1,062)	**(2,837)**	138	0	**(2,699)**
Business Rates Reserve	0	0	(11,357)	**(11,357)**	11,357	(6,327)	**(6,327)**
Committed Schemes	(469)	469	(593)	**(593)**	593	(963)	**(963)**
Community Housing Fund	(920)	38	0	**(882)**	5	0	**(877)**
Contain Outbreak Management F	0	0	(103)	**(103)**	0	(160)	**(263)**
Council Tax Hardship Reserve	0	0	(162)	**(162)**	37	0	**(125)**
Historic Buildings	(7)	0	0	**(7)**	0	0	**(7)**
Household Support Fund	0	0	0	**0**	0	(41)	**(41)**
Housing Needs Survey	(108)	0	0	**(108)**	0	0	**(108)**
Leisure Development	(834)	0	0	**(834)**	386	0	**(448)**
Local Development Framework	(29)	9	(350)	**(370)**	0	0	**(370)**
Lymington Synthetic Turf Pitch	(187)	0	(20)	**(207)**	207	0	**0**
Open Space Maintenance	(83)	56	(447)	**(474)**	56	(6)	**(424)**
Private Housing Stock Condition Survey	(88)	29	0	**(59)**	0	0	**(59)**
Quadrennial Election	0	0	(44)	**(44)**	0	(44)	**(88)**
Treasury Management	0	0	(38)	**(38)**	0	0	**(38)**
General Fund	**(4,544)**	**601**	**(14,303)**	**(18,246)**	**12,779**	**(7,628)**	**(13,095)**
HRA ICT	(410)	59	0	**(351)**	111	0	**(240)**
Housing Acquisitions and Development	(14,360)	1,271	0	**(13,089)**	1,360	0	**(11,729)**
Total Reserves	**(19,314)**	**1,931**	**(14,303)**	**(31,686)**	**14,250**	**(7,628)**	**(25,064)**

10. CAPITAL PROGRAMME RESERVE

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

	Balance 1 April 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance 31 March 2021	Transfers Out 2021/22	Transfers In 2021/22	Balance 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	(10,297)	1,303	(3,149)	**(12,143)**	2,305	(2,166)	**(12,004)**
	(10,297)	**1,303**	**(3,149)**	**(12,143)**	**2,305**	**(2,166)**	**(12,004)**

11. PROPERTY, PLANT AND EQUIPMENT ASSETS AND IMPAIRMENTS

Valuation of Property, Plant and Equipment

The Council operates a rolling programme of property revaluations, which are carried out over a 5-year period. In 2021/22 this work was carried out by the Council's valuer P. Marston, MRICS, Registered Valuer. The revaluation programme for 2021/22 principally comprised the majority of the Council's non-operational land and buildings, as well as 20% of dwellings using the Beacon method of valuation. The remainder of dwellings' values were uplifted in line with the resultant Beacon indices.

a) Analysis of Assets

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

2020/21		2021/22
5,168	Council Dwellings	5,162
2	Main Office Blocks	2
2	Other Offices	2
5	Depots and Administrative Buildings	5
5	Health and Leisure Centres	5
51	Car Parks	52
9	Cemeteries	9
23	Public Conveniences	23
234	Vehicles	218
1,788	Garages	1,755

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

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

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost (Net of Depreciation)			4,509	2,771		3,986	**11,266**
Valued at Fair Value as at:							
2021/22	418,512	60,925					**479,437**
2020/21		4,357					**4,357**
2019/20	320	2,167			537		**3,024**
2018/19		2,090					**2,090**
2017/18		3,956					**3,956**
Total Cost or Valuation	**418,832**	**73,495**	**4,509**	**2,771**	**537**	**3,986**	**504,130**

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

c) Movement on Property, Plant and Equipment Assets

Purchases and disposals during the year were as follows:

Movements in 2021/22:	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2021	384,811	67,843	10,525	19,839	537	3,286	**486,841**
Additions	11,794	535	3,086	167	0	1,067	**16,649**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	31,959	5,171	0	0	0	0	**37,130**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	2,335	817	0	0	0	0	**3,152**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(9,879)	(535)	0	(167)	0	0	**(10,581)**
Derecognition - disposals	(2,794)	0	(1,593)	0	0	0	**(4,387)**
Other movements in cost or valuation	606	(239)	0	0	0	(367)	**0**
At 31 March 2022	**418,832**	**73,592**	**12,018**	**19,839**	**537**	**3,986**	**528,804**
Accumulated Depreciation and Impairment							
At 1 April 2021	0	(1)	(8,088)	(16,775)	0	0	**(24,864)**
Depreciation charge	(8,701)	(102)	(950)	(293)	0	0	**(10,046)**
Depreciation written out to the Revaluation Reserve	0	6	0	0		0	**6**
Depreciation written out to the Surplus / Deficit on the Provision of Services	8,701	0	0	0	0	0	**8,701**
Derecognition - disposals	0	0	1,529	0	0	0	**1,529**
At 31 March 2022	**0**	**(97)**	**(7,509)**	**(17,068)**	**0**	**0**	**(24,674)**

Net Book Value							
at 31 March 2022	**418,832**	**73,495**	**4,509**	**2,771**	**537**	**3,986**	**504,130**
at 31 March 2021	**384,811**	**67,842**	**2,437**	**3,064**	**537**	**3,286**	**461,977**

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

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

d) Impairments

Valuation reductions of Property, Plant and Equipment Assets in 2021/22 were £955,000 (Garages £174,000 and other General Fund Assets £781,000), but valuation increases were £50.402 million (Council Dwellings £43.171 million and General Fund Assets £7.231 million).

Offsetting the net valuation increases was non-enhancing capital expenditure of £9.879 million on Council Dwellings, and £968,000 on General Fund Assets, which was impaired via the Comprehensive Income and Expenditure Statement in the year.

Net valuation increases of Investment Properties in 2021/22 were £456,000.

e) Capital Expenditure Contract Commitments

As at 31 March 2022, the Council was committed through contracts to future capital expenditure in respect of the following major schemes:

	Period of investment	£000
Environment and Coastal Services		
Hydrodynamics	2022/23	435
Geodata	2022/23	80
Aerial Photography	2022/23	111
Finance, Investment and Corporate Services		
Crow Lane Industrial Site	2022/23	4,717
Crow Lane Industrial Site	2023/24	125
Vehicles	2022/23	2,087
Housing and Homelessness Services		
Christchurch Road	2022/23	120
Gorse Close	2022/23	767
Ladycross Road	2022/23	1,600
People and Places		
Public Conveniences	2022/23	131
Total		**10,173**

12. INVESTMENT PROPERTIES

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

2020/21 £000		2021/22 £000
(512)	Rental income from investment property	(690)
16	Direct operating expenses arising from investment property	38
353	Capital expenditure not enhancing value	171
150	Net (gains)/losses from fair value adjustments	(456)
7	**Net (gain)/loss**	**(937)**

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

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

2020/21 £000		2021/22 £000
9,454	**Balance at start of the year**	**12,384**
	Additions:	
3,433	Purchases	3,266
0	Construction	2,528
(353)	Capital expenditure not enhancing value	(171)
(150)	Net gains/(losses) from fair value adjustments	456
12,384	**Balance at end of the year**	**18,463**

The balance includes an asset under construction valued at historical cost of £4,538,000.

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

13. INTANGIBLE ASSETS

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

2020/21 £000		2021/22 £000
0	**Opening Balance**	**0**
268	Additions	95
(268)	Capital Expenditure not enhancing value	(95)
0	**Closing Balance**	**0**

14. LONG-TERM INVESTMENTS

The Council is permitted to invest and lend a proportion of its funds for more than 364 days. At 31 March 2022 the Council had 8 loans which had a remaining maturity term of more than one year.

2020/21		2021/22
£000		**£000**
18,636	**Opening Balance**	**17,120**
387	Purchases	333
1,151	Revaluations Gains	1,630
(46)	Revaluations Losses	(122)
(8)	Repayments	(1)
(3,000)	Transfers to Short-Term Investments	(2,038)
17,120	**Closing Balance**	**16,922**

15. LONG-TERM DEBTORS

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

31 March 2021		31 March 2022
£000		**£000**
5	Car Loans	2
502	Lymington Harbour Commissioners - Principal	301
439	Rent to Mortgages House Purchases	473
1,766	Appletree Property Holdings	2,673
2,712	**Total**	**3,449**

16. SHORT-TERM INVESTMENTS

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

2020/21		2021/22
£000		£000
20,062	**Opening Balance**	**25,053**
75,500	Purchases	100,970
30	Revaluations Gains	16
0	Revaluations Losses	(30)
(35)	Movement in Accrued Interest	(29)
(73,502)	Repayments	(81,488)
(2)	Expected Credit Loss	0
3,000	Transfers from Long-Term Investments	2,038
25,053	**Closing Balance**	**46,530**

17. INVENTORIES

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

2020/21		2021/22
£000		£000
285	**Balance at 1 April**	267
1,974	Purchases	2,352
(1,973)	Recognised as an expense in the year	(2,331)
(19)	Written off balances	(5)
267	**Balance at 31 March**	**283**

18. SHORT-TERM DEBTORS

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

31 March 2021		31 March 2022
£000		£000
6,283	Central Government Bodies (a)	975
	Local Authorities:	
2,599	Hampshire County Council (b)	1,605
2	Police and Crime Commissioner for Hampshire	29
213	Hampshire and Isle of Wight Fire and Rescue Service (b)	73
45	New Forest National Park Authority	20
258	Other Local Authorities	68
4	NHS Bodies	0
148	Public Corporations and Trading Funds	102
	Other Entities and Individuals:	
637	Council Tax Payers	656
599	Business Rate Payers	541
1,027	Housing Tenants' Rents	1,082
5,676	Other Debtors and Payments in Advance ©	6,014
17,491	**Total**	**11,165**

Short-term debtors were lower at the 31 March 2022 by £6.326 million when compared to 31 March 2021, the main contributing factors to this were:

(a) Central Government Bodies debtors decreased by £5.308 million. This was principally due to the following: the reimbursement of benefits from the Department of Works and Pensions was a debtor of £1.944 million at the end of 2020/21 and moved to being a creditor of £0.809 million at 31 March 2022; at 31 March 2021 coast protection grants due were £1.389 million and the Local Government Income Compensation Scheme for lost sales, fees and charges as a result of COVID-19 was £1.677 million, as at 31 March 2022 there were no debtors for either of these.

(b) Hampshire County Council and the Hampshire and Isle of Wight Fire and Rescue Service have decreased mainly due to National Non-Domestic Rates reducing by £1.263 million and £140,000 respectively since 31 March 2021.

(c) Other Debtors and Payments in Advance has increased in the main due to an increase in the value of outstanding Accounts Receivable balances.

The bad debts provision is shown below:

31 March 2021		31 March 2022
£000		£000
(258)	Council Tax Payers	(265)
(279)	Business Rate Payers	(118)
(755)	Housing Tenants' Rents	(772)
(1,695)	Other Debtors	(1,563)
(2,987)	**Total**	**(2,718)**

19. CASH AND CASH EQUIVALENTS

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

31 March 2021 £000		31 March 2022 £000
8	Cash held by the Council	6
549	Bank current accounts	493
8,321	Short-Term deposits with building societies/banks and other financial institutions	24,073
8,878	**Total**	**24,572**

20. SHORT-TERM BORROWING

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

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

In addition, total accrued interest of £43,922 on short-term and long-term borrowing is also payable within 12 months and is included in this category.

2020/21 £000		2021/22 £000
(4,348)	**Balance at 1 April**	**(4,346)**
4,301	Loans Repaid	4,301
(4,301)	Transferred from Long-Term Borrowing	(4,301)
2	Movement in accrued interest on all Borrowing	1
(4,346)	**Balance at 31 March**	**(4,345)**

21. SHORT-TERM CREDITORS

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

31 March 2021 £000		31 March 2022 £000
(17,728)	Central Government Bodies (a)	(44,849)
	Local Authorities:	
(601)	Hampshire County Council (b)	(2,238)
(58)	Police and Crime Commissioner for Hampshire	(336)
(10)	Hampshire and Isle of Wight Fire and Rescue Service	(98)
(4)	New Forest National Park Authority	(31)
(162)	Developers' Contributions Open Space Maintenance	(163)
(833)	Other Local Authorities (c)	(3,191)
(3)	Public Corporations and Trading Funds	(29)
	Other Entities:	
(345)	Council Tax Payers	(349)
(265)	Business Rate Payers	(447)
(7,426)	Other Creditors and Receipts in Advance (d)	(8,294)
(27,435)	**Total**	**(60,025)**

Short term creditors have increased by £32.590 million from 2020/21 to 2021/22:

(a) The Central Government Bodies balance is £27.121 million higher principally due to £18.915 million regarding National Non-Domestic Rates (Business Rates) and grants received in advance for the Council Tax Energy Rebate scheme of £8.206 million.

(b) Hampshire County Council is higher at 31 March 2022 mainly due to the Collection Fund re Council Tax having increased by £1.635 million.

(c) Other Local Authorities is higher at 31 March 2022 by £2.358 million principally with regard to the regional coastal monitoring programme.

(d) Other Creditors and Receipts in Advance have increased by £0.868 million. This was due, in the main, to increases on accruals for Housing Maintenance of £0.541 million and Industrial Site works of £0.877 million, offset by lower Sundry Creditors outstanding invoice amounts of £0.634 million.

22. LONG-TERM BORROWING

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

At 1 April 2021 the Council was holding long-term debt of £122.605 million. This comprises the sum borrowed in 2012/13, relating to the refinancing of the Housing Revenue Account, as well as a loan raised in March 2014 to finance an equivalent loan made in 2013/14 to the Lymington Harbour Commissioners. At 31 March 2022 £200,700 relating to the Harbour Commissioners' loan was repayable within 12 months, as well as the annual repayment of £4.1 million of the loan taken regarding the Housing Revenue Account financing settlement, therefore a balance of long-term debt of £118.304 million was outstanding at the year end.

2020/21		2021/22
£000		£000
(126,906)	**Balance at 1 April**	**(122,605)**
4,301	Transferred to Short-Term Borrowing	4,301
(122,605)	**Balance at 31 March**	**(118,304)**

23. PROVISIONS

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

	Balance 1 April 2020	Additional Provisions Made 2020/21	Amounts Used 2020/21	Unused Amounts Reversed 2020/21	Balance 31 March 2021	Additional Provisions Made 2021/22	Amounts Used 2021/22	Unused Amounts Reversed 2021/22	Balance 31 March 2022
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Business Rates	(3,828)	(797)	1,729	0	**(2,896)**	(1,990)	1,486	0	**(3,400)**
Health and Leisure Centres	0	0	0	0	**0**	(539)	0	0	**(539)**
Private Sector Leasing Dilapidations	(50)	0	0	0	**(50)**	0	0	0	**(50)**
Redundancy	0	(22)	0	0	**(22)**	(32)	23	0	**(31)**
Total Provisions	**(3,878)**	**(819)**	**1,729**	**0**	**(2,968)**	**(2,561)**	**1,509**	**0**	**(4,020)**

Business Rates

On 1 April 2013 the Government introduced the Business Rates Retention Scheme, which required the Council to make a provision in the Collection Fund for successful appeals against rating valuations. The total provision made at 31 March 2022 was £8.499 million, of which £3.400 million relates to this Council's share of anticipated refunds.

Health and Leisure Centres

The Health and Leisure Centre management contract includes an open book arrangement which allows the Council to make additional payments to the contractor. Recovery from COVID has been slower than anticipated and therefore, based on performance to the end of March 2022, provision has been made for an additional payment of £539,000.

Private Sector Leasing Dilapidations

The Council is responsible for ensuring the repair of private sector houses that are leased. The Council had possible obligations on 119 properties at 31 March 2022. A revenue budget of £152,000 exists in 2022/23 for void repairs and dilapidation costs but a provision of £50,000 is also held to cover the potential for additional costs should a large number of dilapidations occur in any particular year.

Redundancy

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

24. CAPITAL GRANTS – RECEIPTS IN ADVANCE

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

2020/21				2021/22		
Government Grants	Other Grants/ Contributions	Total		Government Grants	Other Grants/ Contributions	Total
£000	£000	£000		£000	£000	£000
(544)	**0**	**(544)**	**Balance at 1 April**	**(1,401)**	**0**	**(1,401)**
(3,862)	(45)	(3,907)	New Receipts	0	0	0
3,005	45	3,050	Financing of Capital Expenditure	0	0	0
0	0	0	Transfer to Capital Grants Unapplied	1,401	0	1,401
(1,401)	**0**	**(1,401)**	**Balance at 31 March**	**0**	**0**	**0**

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

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

2020/21		2021/22
£000		£000
(625)	**Balance at 1 April**	**(577)**
48	Financing of Capital Expenditure	12
(577)	**Balance at 31 March**	**(565)**

26. CAPITAL RECEIPTS RESERVE

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

2020/21		2021/22
£000		£000
(4,618)	**Balance at 1 April**	**(3,571)**
(2,325)	New Receipts (including interest)	(5,678)
662	Transfers to Government	575
2,710	Financing of Capital Expenditure	2,779
(3,571)	**Balance at 31 March**	**(5,895)**

27. CAPITAL GRANTS UNAPPLIED

Capital Grants Unapplied reflects contributions which have no conditions attached to them and have not been utilised and therefore have been credited to Reserves via the Comprehensive Income and Expenditure Account.

2020/21				2021/22		
Government Grants	Other Grants/ Contributions	Total		Government Grants	Other Grants/ Contributions	Total
£000	£000	£000		£000	£000	£000
0	**0**	**0**	**Balance at 1 April**	**0**	**0**	**0**
0	0	0	New Receipts	(2,239)	(27)	(2,266)
0	0	0	Financing of Capital Expenditure	1,639	27	1,666
0	0	0	Transfer from Capital Grants Receipts in Advance	(1,401)	0	(1,401)
0	**0**	**0**	**Balance at 31 March**	**(2,001)**	**0**	**(2,001)**

28. DEVELOPERS' CONTRIBUTIONS / COMMUNITY INFRASTRUCTURE LEVY UNAPPLIED

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

2020/21			2021/22	
CIL	DCs		CIL	DCs
£000	£000		£000	£000
(5,212)	**(4,247)**	**Balance at 1 April**	**(5,998)**	**(4,608)**
(1,055)	(941)	New Receipts	(1,317)	(585)
0	405	Financing of Capital Expenditure	0	234
63	175	Financing of Revenue Expenditure	74	169
206	0	Payments to Town and Parish Councils	218	0
(5,998)	**(4,608)**	**Balance at 31 March**	**(7,023)**	**(4,790)**

29. REVALUATION RESERVE

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

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

2020/21				2021/22		
General Fund	Housing Revenue Account	Total		General Fund	Housing Revenue Account	Total
£000	£000	£000		£000	£000	£000
(20,040)	**(21,824)**	**(41,864)**	**Balance at 1 April**	**(20,138)**	**(26,457)**	**(46,595)**
(617)	(5,071)	(5,688)	Upward revaluation of assets	(5,852)	(32,134)	(37,986)
519	306	825	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	675	174	849
(98)	(4,765)	(4,863)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(5,177)	(31,960)	(37,137)
0	132	132	Accumulated gains on assets sold or scrapped	0	450	450
(20,138)	**(26,457)**	**(46,595)**	**Balance at 31 March**	**(25,315)**	**(57,967)**	**(83,282)**

30. CAPITAL ADJUSTMENT ACCOUNT

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

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

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

2020/21			2021/22	
£000	**£000**		**£000**	**£000**
	(283,315)	**Balance at 1 April**		**(286,484)**
		Reversal of items relating to capital expenditure or credited to the Comprehensive Income and Expenditure Statement:		
10,110		Charges for depreciation and impairment of non-current assets	10,046	
(8,109)		Revaluation (Gains) / Losses on Property, Plant and Equip.	(11,854)	
15,151		Capital Expenditure not enhancing value	10,847	
998		Revenue expenditure funded from capital under statute	1,147	
961		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,408	
	19,111	Net written out amount of the cost on non-current assets consumed in the year		12,594
		Capital financing applied in the year:		
(2,710)		Use of the Capital Receipts Reserve to finance new capital expenditure	(2,779)	
(8,704)		Use of the Major Repairs Reserve to finance new capital expenditure	(8,701)	
(3,098)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,677)	
(405)		Application of grants / contributions to capital financing from the Capital Grant / Developers' Contributions Unapplied Accounts	(234)	
(1,135)		Provision for the financing of capital investment charged against the General Fund balance	(1,167)	
(4,100)		Provision for the financing of capital investment charged against the HRA balance	(4,100)	
(2,278)		Capital expenditure charged against the General Fund and HRA balances	(3,041)	
	(22,430)			(21,699)
	150	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(456)
	(286,484)	**Balance at 31 March**		**(296,045)**

31. FINANCIAL INSTRUMENTS REVALUATION RESERVE

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

2020/21		2021/22
£000		£000
1,219	**Balance at 1 April**	**90**
(1,177)	Upward revaluation of investments	(1,627)
45	Downward revaluation of investments	152
3	Expected credit loss on investments	(1)
(1,129)	(Surplus) or deficit on revaluation of investments	(1,476)
90	**Balance at 31 March**	**(1,386)**

32. DEFERRED CAPITAL RECEIPTS RESERVE

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

2020/21		2021/22
£000		£000
(558)	**Balance at 1 April**	**(444)**
(4)	New Receipts/Revaluations	(33)
118	Transfer to the Capital Receipts Reserve upon receipt of cash	1
(444)	**Balance at 31 March**	**(476)**

33. PENSIONS RESERVE

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

2020/21		2021/22
£000		£000
99,470	**Balance at 1 April**	**116,704**
11,276	Remeasurement of the net defined liability / (asset)	(40,575)
10,434	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	13,138
(4,476)	Employer's pensions contributions and direct payments to pensioners payable in the year	(4,324)
0	Health and Leisure Contractor Payment into Fund	(371)
116,704	**Balance at 31 March**	**84,572**

34. COLLECTION FUND ADJUSTMENT ACCOUNT

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

31 March 2021				31 March 2022		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
14,197	0	14,197	Central Government	7,909	0	7,909
2,555	(401)	2,154	Hampshire County Council	1,424	(2,076)	(652)
0	(72)	(72)	Police and Crime Commissioner for Hampshire	0	(354)	(354)
284	(19)	265	Hampshire Fire and Rescue Authority	158	(110)	48
17,036	(492)	16,544		9,491	(2,540)	6,951
11,357	(74)	11,283	New Forest District Council	6,327	(421)	5,906
28,393	**(566)**	**27,827**		**15,818**	**(2,961)**	**12,857**

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

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

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

2020/21		2021/22
£000		£000
(10,110)	Charges for depreciation and impairment	(10,046)
8,109	Revaluation Gains/(Losses) on Property, Plant and Equipment	11,854
1	Revaluation/Movement in Deferred Debtors	35
1,132	Revaluation Gains/(Losses) on Investments	1,494
(15,151)	Capital Expenditure not enhancing value	(10,847)
(150)	Movements in the value of Investment Properties	456
3,714	Capital grants applied to the financing of Capital Expenditure	4,104
(1,093)	Carrying amount of Non-Current Assets sold	(2,858)
(18)	Increase/(Decrease) in Inventories	15
5,829	Increase/(Decrease) in Debtors	(6,326)
(35)	Increase/(Decrease) in Investments Accrued Interest	(29)
(322)	(Increase)/Decrease in impairment for Provision for Bad Debts	269
(9,211)	(Increase)/Decrease in Creditors	(8,858)
(55)	Adjustment to Creditors re Capital Expenditure	1,353
(5,958)	Movement in Pension Liability	(8,444)
910	Other non-cash items charged to the net surplus or deficit on the provision of services	(1,052)
(22,408)	**Adjustment to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements**	**(28,880)**

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

2020/21		2021/22
£000		£000
2,165	Proceeds adjustment from the sale of property, plant and equipment and investment property	5,580
2,165		**5,580**

The cash flows for operating activities include the following items:

2020/21		2021/22
£000		£000
(926)	Investment interest received	(827)
4,264	Loan interest paid	4,169
3,338		**3,342**

36. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2020/21		2021/22
£000		£000
22,944	Purchase of property, plant and equipment, investment property and intangible assets	21,183
75,887	Purchase of short-term and long-term investments	101,303
1,461	Other payments for investing activities	909
(2,165)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,580)
(73,510)	Proceeds from short-term and long-term investments	(81,490)
(3,932)	Other receipts from investing activities	(4,311)
20,685	**Net cash flows from investing activities**	**32,014**

37. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2020/21		2021/22
£000		£000
0	Other receipts from financing activities	(22,316)
4,301	Repayments of short and long-term borrowing	4,301
5,028	Other payments for financing activities	0
9,329	**Net cash flows from financing activities**	**(18,015)**

38. ACCUMULATING ABSENCES ADJUSTMENT ACCOUNT

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

2020/21			2021/22	
£000	£000		£000	£000
	282	**Balance at 1 April**		**593**
(282)		Settlement or cancellation of accrual made at the end of the preceding year	(594)	
593		Amounts accrued at the end of the current year	525	
	311	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(69)
	593	**Balance at 31 March**		**524**

39. AGENCY SERVICES

The Council carried out grass cutting of adopted highway verges on an agency basis.

2020/21		2021/22		
Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
0	Hampshire County Council - Highways	315	(315)	0
0	**Agency Expenditure**	**315**	**(315)**	**0**

40. CONTINGENT ASSETS

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

41. CONTINGENT LIABILITIES

In April 2012 the Dibden Golf Course staff transferred to Mytime Active, who gained admitted body status to the Hampshire County Council Government Pension Scheme. New Forest District Council is the sponsoring body, acting as guarantor for any contributions to the Pension Fund should they not be paid by Mytime Active. As at 31 March 2022 no such guarantee has been exercised.

The Health and Leisure staff transferred to Freedom Leisure in July 2021 but remain in the Hampshire County Council Government Pension Scheme under a pooling arrangement with the Council. As such, assets and liabilities relating to those staff remain on the Council's balance sheet and Freedom Leisure operate with defined contributions. In addition, New Forest District Council act as guarantor for any contributions to the Pension Fund should they not be paid by Freedom Leisure. No such guarantee has been exercised as at 31 March 2022.

42. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

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

New vehicles, plant and equipment, above a de minimis level of £10,000, are funded by a future borrowing requirement. In order to make a provision to repay this future requirement a revenue provision is made. This sum was £919,000 in 2021/22 and was charged to the General Fund together with £166,000 in relation to investment property acquisitions. In addition, £4.1 million for the next principal repayment was made regarding the Housing Revenue Account Self-Financing Settlement and £82,000 was charged to the Housing Revenue for future provision for loan repayment on the Acquisitions and Development Programme.

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

	2020/21		2021/22	
	£000	£000	£000	£000
Opening Capital Financing Requirement		140,052		141,896
Capital Investment				
Property, Plant and Equipment Assets	22,621		22,441	
Long-Term Investments	387		333	
Intangible Assets	268		95	
REFCUS	998	24,274	1,147	24,016
Sources of Finance				
Capital Receipts	(2,710)		(2,779)	
Government Grants	(3,050)		(1,666)	
Revenue Contributions	(2,278)		(3,041)	
Major Repairs Reserve	(8,704)		(8,701)	
Developers' Contributions	(453)	(17,195)	(246)	(16,433)
Other Adjustments for the Repayment of Debt				
Repayment of Loan Principal		(4,100)		(4,100)
Revenue Provision		(1,135)		(1,167)
Closing Capital Financing Requirement		**141,896**		**144,212**

Explanation of movements in Year	2020/21	2021/22
	£000	£000
Increase in underlying need to borrow (unsupported by Government financial assistance)	7,079	7,583
Reduction (-)/increase in need to borrow because of:		
- Repayment of Loan Principal	(4,100)	(4,100)
- Revenue Provision	(1,135)	(1,167)
	1,844	2,316

43. DEFINED BENEFIT PENSION SCHEME

a) Participation in Pension Scheme

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

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

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

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

	2020/21	2021/22
	£ million	**£ million**
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service cost comprising:		
Current service cost	8.161	10.511
Past service cost	0.032	0.220
Financing and Investment Income and Expenditure		
Net Interest expense	2.241	2.407
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	10.434	13.138
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(40.139)	(11.732)
Actuarial (Gains) / Losses arising on changes in demographic assumptions	0.000	(5.466)
Actuarial (Gains) / Losses arising on changes in financial assumptions	54.743	(20.736)
Actuarial (Gains) / Losses due to liability experience	(3.328)	(2.641)
Total Net Defined Benefit Liability Re-measured	11.276	(40.575)
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	21.710	(27.437)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(17.234)	31.761
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to scheme	**4.476**	**4.324**

c) Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Assets and Liabilities	31 March 2021	31 March 2022
	£ million	£ million
Present value of the defined benefit obligation	(336.912)	(318.717)
Fair value of plan assets	220.208	234.145
Net liability arising from defined benefit obligation	**(116.704)**	**(84.572)**

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment retirement benefits. The total net liability of £84.572 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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

	2020/21	2021/22
	£ million	£ million
Opening balance at 1 April	(276.663)	(336.912)
Current Service Cost	(8.161)	(10.511)
Past Service Cost	(0.032)	(0.220)
Interest Cost	(6.299)	(7.002)
Contributions from scheme Participants	(1.471)	(1.514)
Remeasurement (Gains) and Losses:		
Actuarial Gains/(Losses) arising from changes in financial assumptions	(54.743)	20.736
Actuarial Gains/(Losses) due to liability experience	3.328	2.641
Actuarial Gains/(Losses) arising from changes in demographic assumptions	0.000	5.466
Benefits Paid	7.129	8.599
Closing balance at 31 March	**(336.912)**	**(318.717)**

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

	2020/21	2021/22
	£ million	£ million
Opening fair value of scheme assets at 1 April	177.193	220.208
Interest Income	4.058	4.595
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	40.139	11.732
Contributions from employer	4.476	4.324
Contributions from employees into the scheme	1.471	1.514
Contibutions from Health and Leisure Contract Employer	0.000	0.371
Benefits paid	(7.129)	(8.599)
Closing fair value of scheme assets at 31 March	**220.208**	**234.145**

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

31 March 2021		Assets	31 March 2022	
£ million	%		£ million	%
3.08	1.4	Cash and Cash Equivalents	2.11	0.9
125.52	57.0	Equity Investments	133.23	56.9
38.10	17.3	Government Bonds	40.27	17.2
13.43	6.1	Property	16.16	6.9
0.00	0.0	Multi Asset Credit	21.07	9.0
40.08	18.2	Other Assets	21.31	9.1
220.21	100.0	**Total Assets**	**234.15**	100.0

e) Basis for Estimating Assets and Liabilities

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

The main assumptions used in their calculations have been:

Financial Assumptions	31 March 2021	31 March 2022
	%	%
Rate of inflation - CPI	2.7	3.0
Rate of increase in salaries	3.7	4.0
Rate of increase in pensions	2.7	3.0
Pension Accounts Revaluation Rate	2.7	3.0
Rate of discounting scheme liabilities	2.1	2.7

Mortality Assumptions		31 March 2021	31 March 2022
		Years	**Years**
Pensioner member aged 65 at accounting date			
	Males	23.1	23.2
	Females	25.5	25.6
Active member aged 45 at accounting date			
	Males	24.8	23.7
	Females	27.3	26.6

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

Impact on the Defined Benefit Obligation in the scheme	Increase in Assumption	Decrease in Assumption
	£ million	**£ million**
Longevity (increase or decrease in 1 year)	10.66	(10.66)
Rate of inflation (increase or decrease by 0.1%)	5.64	(5.64)
Rate of increase in salaries (increase or decrease by 0.1%)	0.63	(0.63)
Rate of increase in pensions (increase or decrease by 0.1%)	5.64	(5.64)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(6.27)	6.27

f) Impact on the Authority's Cash Flows

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

The Council anticipates paying standard contributions of £4.089 million to the fund for the accounting period ending 31 March 2023. In addition, estimated Strain on Fund contributions will be £364,000.

The weighted average duration of the defined benefit obligation for scheme members is 20.3 years (20.3 years 2020/21).

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

44. EXTERNAL AUDIT COSTS

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

2020/21		2021/22
£000		£000
43	External audit services carried out by the appointed auditor	43
12	Certification of grant claims and returns	25
55		**68**

In addition, the external auditor submitted fee variations to Public Sector Audit Appointments Limited for 2020/21.

45. GRANTS INCOME

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

2020/21		2021/22
£000	**Service Specific Revenue Grants and Contributions (included in cost of services)**	£000
	Department for Levelling Up, Housing and Communities	
(141)	Council Tax Benefits Admin	(144)
(3,047)	Covid 19 Additional Restrictions Grant Discretionary Scheme	(3,895)
(583)	Covid 19 New Burdens/Compliance	(1,025)
(886)	Covid 19 Hardship Fund	0
0	Covid 19 Welcome Back Fund	(188)
(510)	Disabled Facilities Grants	(895)
(79)	Family Annex Grant	(88)
(364)	Flexible Homelessness Support	0
(1,059)	Furlough Scheme	0
0	Homelessness Prevention Grant	(620)
(155)	New Burdens Homelessness Reduction Act	0
(257)	Next Steps Accommodation	(72)
(275)	NNDR Collection	(276)
0	Protect and Vaccinate Programme	(93)
(247)	Rough Sleepers	(460)
0	Support to Vulnerable Renters	(130)
(77)	Other DLUHC	(82)
	Department for Health and Social Care	
0	Covid Marshalls/Contain Outbreak Management Fund	(203)
	Department for Work and Pensions	
(340)	Housing and Council Tax Benefit Administration	(368)
(30,703)	Housing Benefit Subsidy	(27,290)
(368)	Discretionary Housing Payments	(263)
(109)	Other DWP	(87)
	Other Government Grants	
(11)	Individual Electoral Registration	0
(44)	Apprenticeship Levy	(35)
(1)	Other	(19)
(39,256)	**Total Government Grants**	**(36,233)**

2020/21		2021/22
£000	Other Grants and Contributions	£000
(303)	Project Integra - Recycling	(588)
(1,075)	Developers' Contributions	(420)
(19)	Disabled Facilities Grants	(5)
(1,397)	**Total Other Grants and Contributions**	**(1,013)**
(40,653)	**Total Service Revenue Grants and Contributions**	**(37,246)**
	Non-Ringfenced Revenue Government Grants	
	Non Domestic Rates Income and Expenditure	
24,518	Tariff	24,802
(11,566)	Retention Scheme Income	(17,095)
(3,513)	Surplus Business Rates Distributed from Pool	(3,077)
(15,381)	S31 Grant (New Forest District Council proportion)	(9,725)
(5,942)		**(5,095)**
	Department for Levelling Up, Housing and Communities	
(286)	New Homes Grant	(276)
(8)	Council Tax Freeze Grant	0
(21)	Council Tax Income Grant	0
0	Council Tax Support Grant	(209)
(4,263)	Covid Income Loss Reimbursement Grant	(964)
(2,238)	Covid Emergency Grant	0
0	Lower Tier Services Grant	(170)
(6,816)		**(1,619)**
(12,758)	**Total Non-Ringfenced Revenue Government Grants**	**(6,714)**
	Capital Grants and Contributions	
(1,548)	Coast Protection	(664)
(947)	Housing Acquisitions and Development	(603)
0	HRA Energy Efficiency Scheme	(288)
0	Private Sector Disabled Facilities Grants	(1,189)
(26)	Public Sector Disabled Facilities Grants	0
0	Lymington Quay - Harbour Commissioners	(23)
(361)	Developers' Contributions	(182)
(786)	Community Infrastructure Levy	(1,025)
(46)	Capital Receipts	(130)
(3,714)	**Total Capital Grants and Contributions**	**(4,104)**
(57,125)	**Total Grants and Contributions Income**	**(48,064)**

The Council has received additional grant funding as part of the government’s response to the COVID-19 pandemic, some to cover the Council’s own expenditure/income shortfalls and some for passing on to local businesses and individuals. The Council has made judgements about whether it is acting as principal or agent in relation to this funding. Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not included in the Comprehensive Income and Expenditure Statement, other than any element of the funding relating to administration costs.

The table above excludes agent grants for 2021/22 from Central Government of £16 million (2020/21 was £89.7 million) for business support grants where the Council is acting as an agent of the Government in administering the funds and £13.6 million of S31 Business Rate Reliefs grant (£27.1 million for 2020/21). The latter was paid to the Council so that it continues to pay relevant parties their share of business rates income as without suffering cash flow problems due to the award of significant additional reliefs to support particular business sectors during the pandemic.

46. LEASES

Finance Leases with the Council acting as Lessee

In 2021/22 there were no rental payments to lessors for Finance Leases.

Operating Leases with the Council acting as Lessee

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

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

	31 March 2021	31 March 2022
	£000	£000
Not later than one year	151	143
Later than one year but not later than 5 years	471	419
Later than 5 years	453	364
Total Lease Rentals	**1,075**	**926**

Expenditure of £151,069 was charged to the Comprehensive Income and Expenditure Statement during the year (£144,360 in 2020/21).

Operating Leases with the Council acting as Lessor

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

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

	31 March 2021	31 March 2022
	£000	£000
Not later than one year	1,163	1,135
Later than one year but not later than 5 years	3,399	3,008
Later than 5 years	27,792	28,501
Total Lease Rentals	**32,354**	**32,644**

The portion of the lease rental for Hythe Marina that is based on a profit share basis has not been included in this table. As the profit cannot be accurately projected over the 999-year term of the lease any estimate will be inaccurate and therefore has been omitted. The income for 2021/22 was £137,568 (2020/21 £139,386).

There are 11 leases that are not included in this table, that have little value or contain an immediate break clause.

47. MEMBERS' ALLOWANCES

During 2021/22, payments to Members of the Council amounted to £542,724. For 2020/21 the equivalent amount was £533,158.

48. SIGNIFICANT INTEREST

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

49. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Financial Liabilities

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

FINANCIAL LIABILITIES	Long-Term		Short-Term	
	31 March 2021	**31 March 2022**	**31 March 2021**	**31 March 2022**
	£000	**£000**	**£000**	**£000**
Loans at amortised cost:				
PWLB principal sum borrowed	122,605	118,304	4,301	4,301
Accrued Interest	0	0	46	44
Total Borrowing	**122,605**	**118,304**	**4,347**	**4,345**
Liabilities at amortised cost:				
Trade Creditors	0	0	7,105	8,426
Total Financial Liabilities	**122,605**	**118,304**	**11,452**	**12,771**

Financial Assets

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

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

- Cash
- Bank current and notice accounts
- Fixed term deposits with banks and building societies
- Loans to other Local Authorities
- Loans to Housing Associations
- Certificates of deposit and covered bonds issued by banks and building societies
- Treasury Bills and Gilts issued by the Government
- Bonds issued by multilateral development banks

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

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

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

FINANCIAL ASSETS	Long-Term		Short-Term	
	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000
At amortised cost:				
Principal	3,040	1,002	23,000	44,537
Accrued Interest	0	0	51	22
Credit Loss Allowance	(1)	0	(2)	(2)
At fair value through profit & loss:				
Fair value	14,081	15,920	2,004	1,973
Total Investments	**17,120**	**16,922**	**25,053**	**46,530**
At amortised cost				
Cash	0	0	557	499
Cash equivalents	0	0	3,090	3,910
Accrued interest	0	0	2	4
Loss Allowance	0	0	(1)	(1)
At fair value through profit & loss:				
Fair value	0	0	5,230	20,160
Total Cash and Cash Equivalents	**0**	**0**	**8,878**	**24,572**
Loans and receivables:				
Trade Debtors	0	0	4,927	6,709
Total Financial Assets	**17,120**	**16,922**	**38,858**	**77,811**

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

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

	2020/21				2021/22			
	Financial Liabilities Amortised Cost	Financial Assets Amortised Cost	Financial Assets Fair Value through Profit and Loss	Total	Financial Liabilities Amortised Cost	Financial Assets Amortised Cost	Financial Assets Fair Value through Profit and Loss	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	4,268	0	0	4,268	4,167	0	0	4,167
Losses from change in fair value	0	0	45	45	0	0	152	152
Impairment losses	0	3	0	3	0	2	0	2
Interest payable and similar charges	**4,268**	**3**	**45**	**4,316**	**4,167**	**2**	**152**	**4,321**
Interest Income	0	(197)	0	(197)	0	(64)	0	(64)
Dividend Income	0	0	(626)	(626)	0	0	(568)	(568)
Gains from changes in fair value	0	0	(1,177)	(1,177)	0	0	(1,628)	(1,628)
Impairment loss reversals	0	(7)	0	(7)	0	(3)	0	(3)
Interest and Investment Income	**0**	**(204)**	**(1,803)**	**(2,007)**	**0**	**(67)**	**(2,196)**	**(2,263)**
Net Impact on surplus/deficit on provision of services	**4,268**	**(201)**	**(1,758)**	**2,309**	**4,167**	**(65)**	**(2,044)**	**2,058**
Impact on Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net (Gain)/Loss for the year	**4,268**	**(201)**	**(1,758)**	**2,309**	**4,167**	**(65)**	**(2,044)**	**2,058**

Financial Instruments Key Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in 2021.

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

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

The main risks covered are:

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

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

Credit Risk - Investments

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

A limit of £10 million of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK Government). For unsecured investments in banks, building societies, registered providers and companies, a smaller limit of £5 million applies. The Council also sets limits on investments in certain sectors. No more than £40 million in total can be invested for a longer period than one year. These limits were set and implemented for 2021/22 on 25 February 2021.

The credit quality of £22.715 million of the Council's investments is enhanced by collateral held in the form of covered bonds collateralised by residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

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

Counterparty	**Balance invested as at 31 March 2022**					
	Call Accounts	**Up to 1 month**	**> 1 month and < 6 months**	**> 6 months and < 12**	**> 12 months**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Banks	3,914	0	275	0	0	**4,189**
Money Market Funds	20,160	0	0	0	0	**20,160**
Local Authorities/Housing Associations	0	1,500	4,502	1,001	0	**7,003**
Bonds	0	0	11,058	15,718	1,002	**27,778**
Certificates of Deposit	0	7,502	0	0	0	**7,502**
Treasury Bills	0	0	3,000	0	0	**3,000**
Pooled Funds	1,973	0	0	0	14,994	**16,967**
Appletree Property Holdings	0	0	0	0	926	**926**
Total	**26,047**	**9,002**	**18,835**	**16,719**	**16,922**	**87,525**

Bond Ratings	Long-term		Short-term	
	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000
AAA	3,039	1,002	0	25,774
AA-	0	0	0	6,432
A+	0	0	0	4,538
A	0	0	9,104	4,723
AAA Money Market Funds	0	0	5,230	20,160
Unrated local authorities	0	0	17,037	7,003
Total	**3,039**	**1,002**	**31,371**	**68,630**
Credit Rate Not Applicable	14,081	15,920	2,003	1,973
Total Investments	**17,120**	**16,922**	**33,374**	**70,603**

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

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 67% (2021 131%) to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a ''D'' credit rating or equivalent.

At 31 March 2022, £3,000 (2021: £4,000) of loss allowances related to treasury investments.

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

Bond Ratings	Amount at 31 March 2022	Historical experience of default	Market Conditions at 31 March 2022	Estimated maximum exposure to default
	£000	%	%	£000
Trade Debtors	6,709	0.74%	0.03%	2
Total	**6,709**			**2**

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

Trade Debtors

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

	31 March 2021	31 March 2022
	£000	**£000**
Less than three months	2,040	3,248
Three months to one year	829	1,095
More than one year	2,058	2,366
Total	**4,927**	**6,709**

The Council initiates a legal charge on property where tenants have amounts due on a Council mortgage used for the purchase of their Council dwelling. The total collateral at 31 March 2022 was £3,331.

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

Liquidity Risk

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

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

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

	31 March 2021	31 March 2022
	£000	**£000**
Less than one year	33,320	70,577
Between one and two years	2,038	1,002
Between two and three years	1,002	0
No fixed maturity date	14,081	15,920
Total	**50,441**	**87,499**

All trade and other payables (£6.709 million) are due to be paid in less than one year and are not shown in the table above.

Refinancing and Maturity Risk

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

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

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

	Approved maximum limits 2021/22		**Actual 31 March 2021**		**Actual 31 March 2022**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Less than one year	51	25	4.3	3	4.3	4
Between one and two years	52	25	4.3	3	4.3	4
Between two and five years	51	25	12.5	10	12.3	10
Between five and ten years	52	25	20.5	16	20.5	17
Between ten and twenty years	206	100	41.0	33	41.0	33
Between twenty and forty years	206	100	44.3	35	40.2	32
Over forty years	206	100	0.0	0	0.0	0
Total			**126.9**	**100**	**122.6**	**100**

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

Market Risk

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

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

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2022, all the £122.605 million (2021: £126.906 million) of principal borrowed was at fixed rates.

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

	2020/21	2021/22
	£000	**£000**
Increase in interest receivable on variable rate investments	(300)	(591)
Decrease in fair value of investments held at FVPL	63	84
Impact on Surplus or Deficit on the Provision of Services	**(237)**	**(507)**
Decrease in fair value of investments held at FVOCI	0	0
Impact on Comprehensive Income and Expenditure Account	**(237)**	**(507)**
Decrease in fair value of loans and investments at amortised cost*	43	78
Decrease in fair value of fixed rate borrowing*	(17,064)	(13,879)

* No impact on Comprehensive Income and Expenditure

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

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

The Council's investments in pooled property funds are subject to the risk of falling commercial property prices. This risk is limited by the Council's investment strategy. A 5% fall in commercial property prices at 31 March 2022 would result in a £0.42 million (2021: £0.37 million) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve.

The Council's investments in pooled equity funds are subject to the risk of falling share prices. This risk is limited by the Council's investment strategy. A 5% fall in share prices at 31 March 2022 would result in a £0.10 million (2021: £0.19 million) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve.

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

Guarantor Risk – The Council acted as the guarantor to a 30-year loan held by the New Forest Enterprise Centre Ltd at Rushington. The last payment for this loan was made during 2020/21, therefore the Council is no longer a guarantor.

Fair value of Assets and Liabilities carried at Amortised Cost

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

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, using the following methods and assumptions:

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

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

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

		31 March 2021		31 March 2022	
	Fair Value Level	**Balance Sheet £000**	**Fair value £000**	**Balance Sheet £000**	**Fair value £000**
Financial liabilities held at amortised cost:					
Loans from PWLB	2	(126,952)	(151,733)	(122,649)	(131,405)
Total		**(126,952)**	**(151,733)**	**(122,649)**	**(131,405)**
Total Financial Liabilities		**(126,952)**		**(122,649)**	
Recorded on balance sheet as:					
Short-term borrowing		(4,347)		(4,345)	
Long-term borrowing		(122,605)		(118,304)	
Total Financial Liabilities		**(126,952)**		**(122,649)**	

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

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

	Fair Value Level	31 March 2021 Balance Sheet £000	31 March 2021 Fair value £000	31 March 2022 Balance Sheet £000	31 March 2022 Fair value £000
Financial assets held at fair value:					
Money market funds	1	5,230	5,230	20,160	20,160
Bond, equity and multi-asset funds	1	8,022	8,022	8,272	8,272
Property Funds	2	7,470	7,470	8,696	8,696
Appletree Property Holdings	1	593	593	926	926
Financial assets held at amortised cost:					
Corporate, covered and government bonds	1	3,039	3,053	1,002	1,004
Long-term loans to local authorities, housing associations, harbour commissioner and Appletree Property Holdings	2	2,712	2,736	3,449	3,452
Total		**27,065**	**27,104**	**42,505**	**42,510**
Assets for which fair value is not disclosed*		31,625		55,677	
Total Financial Assets		**58,690**		**98,182**	
Recorded on balance sheet as:					
Long-term investments		17,120		16,922	
Long-term debtors		2,712		3,449	
Short-term investments		25,053		46,530	
Cash and cash equivalents		8,878		24,572	
Short-term trade debtors		4,927		6,709	
Total Financial Assets		**58,690**		**98,182**	

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

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

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

50. OFFICERS' REMUNERATION

The senior employees whose salary exceeded £50,000 per annum for 2021/22 are shown in the table below.

2021/22	Notes	Salary (including fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£
Former Chief Executive	a/b	47,021	0	47,021	8,470	55,491
Former Returning Officer	a	22,204	0	22,204	0	22,204
		69,225	0	69,225	8,470	77,695
Interim Chief Executive	a/c	40,504	0	40,504	6,823	47,327
Interim Returning Officer	a	567	0	567	0	567
		41,071	0	41,071	6,823	47,894
Current Chief Executive	a/d	39,408	0	39,408	7,251	46,659
Current Returning Officer	a	819	0	819	0	819
		40,227	0	40,227	7,251	47,478
Executive Head - Operations (Deputy Chief Executive)	e	28,635	0	28,635	103,803	132,438
Executive Head - Governance and Regulation		89,216	0	89,216	16,416	105,632
Executive Head - Resources		85,029	0	85,029	15,645	100,674
Chief Finance Officer (S151)		84,205	0	84,205	15,494	99,699
Chief Planning Officer		83,318	0	83,318	15,330	98,648
		520,926	**0**	**520,926**	**189,232**	**710,158**

The Employer's Pension Contributions were 18.40% for 2021/22 and 2020/21.
There were no Bonuses or Benefits in Kind paid in 2021/22 or 2020/21.

a) The Chief Executive undertook the Returning Officer role.
b) The former Chief Executive left on 15 August 2021, the annualised salary for the post was £123,192.
c) An interim Chief Executive was in post from 16 August to 10 December 2021, the annualised salary for the post was £115,921.
d) The new Chief Executive commenced on 6 December 2021, the annualised salary for the post was £123,192.
e) The Executive Head – Operations (Deputy Chief Executive) left on 4 July 2021, the annualised salary for the post was £90,205.

The figures for 2020/21 were:

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

f) The Chief Executive undertook the Returning Officer role.

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

Remuneration Band	**Number of Employees**			
	2020/21		**2021/22**	
	Left During Year	**Total**	**Left During Year**	**Total**
£ 50,000 - £ 54,999	0	10	1	16
£ 55,000 - £ 59,999	0	3	0	4
£ 60,000 - £ 64,999	0	13	1	4
£ 65,000 - £ 69,999	0	3	0	10
£ 70,000 - £ 74,999	0	0	0	1
	0	29	2	35

51. TERMINATION BENEFITS

The Council terminated the contracts of 14 employees in 2021/22, incurring costs of £222,997 (48 employees, £175,179 in 2020/21). At the end of 2021/22 the redundancy provision made was £31,000 for future terminations.

Exit Package Cost Band (including special payments)	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Total Cost of Exit Packages in Each Band £
2021/22				
£0 - £20,000	0	10	**10**	**24,718**
£20,000-£100,000	2	2	**4**	**198,279**
Total	**2**	**12**	**14**	**222,997**
2020/21				
£0 - £60,000	0	48	**48**	**175,179**
Total	**0**	**48**	**48**	**175,179**

52. RELATED PARTIES

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

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

The Council has a wholly owned group subsidiary consisting of an active holding company, that has two subsidiaries, one of which has been active since 2019/20. Each has the same Board of Directors comprised solely of Council members and officers. As 31 March 2022 the Council had a long-term debtor of £2.673 million (as at 31 March 2021, £1.766 million) and investment of £0.926 million (at 31 March 2021, this was £0.593 million).

During 2021/22 the Council provided office accommodation, financial services (including Internal Audit), human resources and geographical information system support to the New Forest National Park Authority. The total income received, which included these services, for 2021/22 was £313,000 (£355,000 for 2020/21). Income due at 31 March 2022 amounted to £20,000. The New Forest National Park Authority provided Ranger and Archaeology services to the Council which amounted to £56,300 for 2021/22 (in 2020/21 £54,000). £8,270 was owed to the New Forest National Park Authority at 31 March 2022.

Members of the Council have direct control over the Council's financing and operating policies. The total of members' allowances paid is shown in note 47. During 2021/22 £85,708 was paid to two companies in which two members had an interest, in 2020/21 no money was paid to companies in which members had an interest. In 2021/22 and 2020/21, no payments were paid to organisations in which members had an interest, but on which there is no Council representative. One member is employed by the Council's bank; this contract was tendered and commenced in December 2014. There were no material transactions with any chief officers during the year.

53. GROUP ACCOUNTS

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

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

Group accounts have been prepared for the year ended 31 March 2022.

54. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

	Charged to revenue 2021/22	Capital resource funding 2021/22
	£000	£000
General Fund		
- Housing Private Sector Disabled Adaptations/Home Repair Loans	901	901
- Leisure Schemes	227	227
- Open Space	19	19
	1,147	**1,147**

55. ASSETS HELD FOR SALE

There were no assets held for sale at 31 March 2022.

56. GOING CONCERN

These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future.

The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The agreed balanced budget for 2022/23 and the Medium Term outlook to 2025/26 are supported by robust financial planning, estimates and assumptions. The Council has plans to address the forecast deficit over the period and as confirmed within the Section 25 statement of the Medium Term Financial Plan, adequate reserves will be maintained above minimum levels. The updated Treasury Management and Investment Strategies pick up on the forecast cashflow position, taking into account the Council's Capital Programme aspirations, covering the period to the end of January 2025. The Council will optimise the cash balances it has and has the option to prudentially borrow to support Capital Programme financing when required but will not need to do so during 2022/23.

The Appletree Property Holdings group of companies depend upon the Council for ongoing financial support. The Council is committed to providing this support in the short to medium term as the companies assist with the provision of housing in the New Forest. Provision of expected loan drawdowns and other financial support has been incorporated into the Council's cash flow forecasts and medium-term financial plans.

57. AUTHORISATION OF ACCOUNTS FOR ISSUE

This Statement of Accounts was authorised for issue on 26 January 2024 by Cllr A Alvey and Mr A Bethune.

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		(980)
(682)	**(Surplus) or Deficit for the year on HRA services**		**(6,563)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING REVENUE ACCOUNT ASSETS

a) Categorised by type of accommodation

31 March 2022	Houses	Bungalows	Flats	Total
Bedsits	0	0	197	197
1 Bedroom	6	361	840	1,207
2 Bedrooms	728	498	433	1,659
3 Bedrooms	1,931	18	6	1,955
4+ Bedrooms	143	1	0	144
Total	**2,808**	**878**	**1,476**	**5,162**

31 March 2021	Houses	Bungalows	Flats	Total
Bedsits	0	0	189	189
1 Bedroom	6	362	837	1,205
2 Bedrooms	731	499	437	1,667
3 Bedrooms	1,939	18	6	1,963
4+ Bedrooms	143	1	0	144
Total	**2,819**	**880**	**1,469**	**5,168**

b) Vacant Possession Value of Dwellings

The following analysis shows the value of dwellings within the HRA if they were sold on the open market with vacant possession.

	1 April 2020	1 April 2021
	£000	£000
Council Housing Assets		
Standard Dwellings	1,025,559	1,047,599
Restricted Housing	74,636	75,845
Special Housing	3,761	5,633
Garages	8,747	8,441
	1,112,703	**1,137,518**
Other Assets		
Investment Property	183	183
Land and Other Buildings	1,408	1,143
Community Centre	77	0
	1,668	**1,326**
	1,114,371	**1,138,844**

c) Gross Value and Number by Type of HRA Assets

This analysis shows the gross value and number by types of dwelling within the HRA. The Balance Sheet value differs from the open market value, reflecting the economic cost to government of providing council housing at less than open market rents.

	1 April 2021		31 March 2022	
	Number of Units	**Value £000**	**Number of Units**	**Value £000**
Council Housing Assets				
Standard Dwellings	4,583	345,708	4,569	376,140
Restricted Housing	540	25,029	540	27,364
Special Housing	45	5,633	53	7,061
Garages	1,788	8,441	1,755	8,267
	6,956	**384,811**	**6,917**	**418,832**
Other Assets				
Investment Property	1	183	1	179
Land and Other Buildings	15	1,143	12	927
Community Centre	1	0	0	0
	17	**1,326**	**13**	**1,106**
Total	**6,973**	**386,137**	**6,930**	**419,938**

d) Capital Expenditure

Housing Revenue Account capital expenditure was applied to:

	2020/21	2021/22
	£000	**£000**
Major Repairs	5,585	5,115
Environmental Enhancements	131	49
Acquisition and Development Programme	10,396	6,817
Disabled Adaptations	641	880
Total	**16,753**	**12,861**

e) Funding of HRA Capital Expenditure

	2020/21	2021/22
	£000	**£000**
Revenue Contributions	975	932
Major Repairs Reserve	8,704	8,701
Loan	4,100	0
Grant	974	576
Capital Receipts	2,000	2,652
Total	**16,753**	**12,861**

2. RENT ARREARS

		31 March 2021	31 March 2022
		£000	£000
Rent Arrears	- current tenants	583	604
	- former tenants	444	478
		1,027	**1,082**
Less provision for bad debts		(755)	(772)
Anticipated collectable arrears of rent		**272**	**310**

3. HOUSING REPAIRS

The following table shows expenditure for the different categories of work undertaken on housing repairs:

	2020/21	2021/22
	£000	£000
Cyclical Maintenance	1,321	1,386
Reactive Maintenance	3,703	4,040
Total	**5,024**	**5,426**

The Council also undertook £5.115 million of housing works, which were treated as capital expenditure. The main categories of work were central heating, windows, doors and roof replacements and kitchen and bathroom modernisations.

4. HRA DEPRECIATION AND IMPAIRMENT OF FIXED ASSETS

a) Depreciation

The figures below show the depreciation charged to the Housing Revenue Account analysed over type of asset.

	2020/21	2021/22
	£000	£000
Standard Accommodation	8,030	7,992
Restricted Accommodation	584	579
Special Housing	89	130
	8,703	**8,701**
Other (included in Supervision and Management costs)	1	1
Total	**8,704**	**8,702**

b) Impairment

In 2021/22 there was a net increase in Housing asset values credited to the Housing Revenue Account of £11.032 million but these were offset by capital expenditure not enhancing value of £9.879 million to arrive at a net valuation increase of £1.153 million. This compares to a net impairment of £3.859 million in 2020/21. In 2021/22 other net Housing asset valuation increases credited to the Revaluation Reserve were £31.960 million (£4.765 million in 2020/21).

	2020/21	2021/22
	£000	**£000**
Housing Revenue Account/Capital Adjustment Account		
Revaluation Increases	(9,103)	(11,036)
Revaluation Decreases	661	4
Net Revaluation (Increases)/Decreases	(8,442)	(11,032)
Capital Expenditure not enhancing asset value	12,301	9,879
Total Housing Revenue Account Impairment	**3,859**	**(1,153)**
Revaluation Reserve		
Revaluation Increases	(5,071)	(32,134)
Revaluation Decreases	306	174
Total Revaluation Reserve	**(4,765)**	**(31,960)**
Total HRA Impairments/Revaluations	**(906)**	**(33,113)**

5. HRA CONTRIBUTION TO/FROM THE PENSION RESERVE

The Council has applied IAS19 to the Housing Revenue Account. This means that service expenditure reflects the appropriate allocation of retirement costs earned in the year rather than actual employer's contributions made. An appropriation has been made from the Pensions Reserve to negate the impact on the Housing Revenue Account balance of all items. The following transactions have been made in the HRA:

	2020/21	2021/22
	£000	**£000**
Net Cost of Services:		
Current service cost	1,588	2,252
Net Operating Expenditure:		
Net Interest Expense	441	521
Amounts to be met from Government Grants and Local Taxation		
Movement on pensions reserve	(1,172)	(1,907)
Actual amount charged against dwelling rents for pensions in the year:		
Employers' contributions payable to scheme	**857**	**865**

6. MAJOR REPAIRS RESERVE

The following table shows the movements on the Major Repairs Reserve.

	2020/21	2021/22
	£000	£000
Balance 1 April	**0**	**0**
Transferred to Reserve	8,704	8,701
Debits in respect of capital expenditure on land, houses and other property	(8,704)	(8,701)
Balance 31 March	**0**	**0**

7. CAPITAL RECEIPTS

The following table shows the income from Capital Receipts. Total Capital Receipts in respect of the Housing Revenue Account are shown after adjustments for administration and other costs.

	2020/21	2021/22
	£000	£000
Sale of Council Houses	2,094	5,084
Discount Repaid	18	18
Shared Ownership	0	236
Mortgages Repaid	0	1
Disabled Facilities Grants	5	0
Rent to Mortgage	29	0
Total Capital Receipts	**2,146**	**5,339**
Payments due to Government	(662)	(575)
Usable Capital Receipts	**1,484**	**4,764**

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)**

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.

NOTES TO THE COLLECTION FUND

1. GENERAL

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year distributed between the billing authority and major precepting authorities in proportion to their precepts in the year the surplus or deficit occurred.

Any surplus or deficit in respect of Business Rates at the end of the year is distributed in accordance with the percentage allocations set out in note 5.

2. CALCULATION OF THE TAX BASE

The Council Tax charge for the year is calculated by dividing the Council's budget requirement by the Council's tax base.

The tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

New Forest District Council's tax base for tax setting purposes was calculated as follows:

Band	Estimated number of Taxable Properties *	Ratio	Number of Band D Equivalent Properties
Disabled A	28.250	5/9	15.90
A	5,861.275	6/9	3,907.70
B	10,665.700	7/9	8,295.80
C	16,435.600	8/9	14,609.60
D	17,602.295	9/9	17,602.50
E	12,481.805	11/9	15,255.80
F	6,581.655	13/9	9,507.10
G	4,277.165	15/9	7,128.80
H	557.665	18/9	1,115.50
Total	74,491.410		77,438.70
Less: Adjustment for collection rates			1,056.70
Less: Council Tax Reduction Scheme			4,843.30
Council Tax Base			71,538.70

* after adjusting for the effects of discounts and anticipated changes during the year for new properties, demolitions, disabled persons relief, exempt properties and successful appeals against valuations.

3. ACCOUNTING FOR THE COLLECTION FUND BALANCE – COUNCIL TAX

The opening balance on the Collection Fund for 2021/22 was a £0.566 million surplus. The surplus at the end of the year is split between Hampshire County Council, New Forest District Council, Police and Crime Commissioner for Hampshire and Hampshire and Isle of Wight Fire and Rescue Service.

In the Balance Sheet at 31 March 2022, the Council included the £2.961 million surplus on a disaggregated basis as a creditor of £2.540 million and a £421,000 attributable surplus within the Collection Fund Adjustment Account balance.

4. PRECEPTS AND DEMANDS ON THE COLLECTION FUND – COUNCIL TAX

2020/21				2021/22		
Precept £000	Share of Surplus £000	Total £000		Precept £000	Share of Surplus £000	Total £000
91,960	400	92,360	Hampshire County Council	96,609	2,076	98,685
15,118	72	15,190	Police and Crime Commissioner for Hampshire	16,201	354	16,555
4,937	19	4,956	Hampshire and Isle of Wight Fire and Rescue Service	5,038	110	5,148
19,271	75	19,346	New Forest District Council (including town and parish council requirements)	19,785	421	20,206
131,286	**566**	**131,852**		**137,633**	**2,961**	**140,594**

5. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate determined by the Government. The total amount, less certain reliefs and other reductions is paid into the Collection Fund before being distributed to Central Government (50%), New Forest District Council (40%), Hampshire County Council (9%) and Hampshire and Isle of Wight Fire and Rescue Service (1%).

The total non-domestic rateable value at 31 March 2022 was £171.005 million. The national non-domestic multiplier was 51.2p. This gave a potential business rate yield of £87.555 million. After allowing for items such as rateable value amendments, empty properties, small property reductions, additional reliefs as a result of the pandemic and transitional and charitable reliefs, the net amount of business rates collectable was £55.299 million.

6. ACCOUNTING FOR THE COLLECTION FUND BALANCE – BUSINESS RATES

The 2021/22 year end deficit balance on the Collection Fund was £15.818 million. The Council’s share is a deficit of £6.327 million and Central Government, Hampshire County Council and Hampshire and Isle of Wight Fire and Rescue Service share a deficit balance of £9.491 million. Within the balance sheet the Council’s share is shown within the Collection Fund Adjustment Account balance and the partners’ share is netted off within debtors. The funding (additional S31 grant) to cover the Council’s share of the deficit is held within Earmarked Reserves.

7. DEMANDS ON THE COLLECTION FUND – BUSINESS RATES

2020/21				2021/22		
Demand	**Share of Surplus / (Deficit)**	**Total**		**Demand**	**Share of Surplus / (Deficit)**	**Total**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
34,462	(14,197)	20,265	Central Government	34,692	(7,909)	26,783
6,203	(2,555)	3,648	Hampshire County Council	6,245	(1,424)	4,821
689	(284)	405	Hampshire and Isle of Wight Fire and Rescue Service	694	(158)	536
27,569	(11,357)	16,212	New Forest District Council	27,754	(6,327)	21,427
68,923	**(28,393)**	**40,530**		**69,385**	**(15,818)**	**53,567**

NEW FOREST DISTRICT COUNCIL
SUPPLEMENTARY STATEMENTS
GROUP ACCOUNTS

The group accounts contain core financial statements similar to those included in the Council's single entity statements but which represent the consolidated position of the group.

The group accounts are presented in the following pages and include:

Notes to the group accounts:

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This account summarises the resources generated and consumed in providing services and managing the Group during the year.

Restated 2020/21				2021/22		
Gross Expend £000	Gross Income £000	Net Expend £000		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
39,241	(35,169)	4,072	Finance, Investment and Corporate Services	34,938	(31,648)	3,290
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	8,886	(2,171)	6,715
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
83,194	(54,610)	28,584	General Fund	76,611	(52,188)	24,423
24,767	(28,097)	(3,330)	Housing Revenue Account	21,037	(28,742)	(7,705)
107,961	**(82,707)**	**25,254**	**Cost of Services**	**97,648**	**(80,930)**	**16,718**
			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	(1,628)	
	(809)		Other Investment Income		(668)	
2,242			Net interest on the net defined benefit liability/(asset)	2,407		
7			Income, expenditure and changes in the fair value of Investment Properties		(937)	
		4,575	**Total Financing and Investment Income and Expenditure**			**3,497**
			Taxation and Non-Specific Grant Income			
	(19,339)		Council Tax Income (incl. Parish precepts)		(20,036)	
	(5,942)		Non-Domestic Rates Income and Expenditure		(5,095)	
	(6,816)		Unringfenced Government Grants		(1,619)	
	(3,714)		Capital Grants and Contributions		(4,104)	
		(35,811)	**Total Taxation and Non-Specific Grant Income**			**(30,854)**
121,703	(121,576)	**127**	**(Surplus)/Deficit on the Provision of Services**	111,621	(117,741)	**(6,120)**
	(4,869)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets		(37,137)	
11,276			Re-measurement of the defined benefit liability/(asset)		(40,575)	
		6,407	**Other Comprehensive Income and Expenditure**			**(77,712)**
		6,534	**Total Comprehensive Income and Expenditure**			**(83,832)**

GROUP MOVEMENT IN RESERVES STATEMENT

This schedule shows the movement in the year of the Council's single entity usable and unusable reserves as well as the Council's share of the group reserves.

	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Council's share of the Reserves of Subsidiaries	TOTAL GROUP RESERVES
	£000	£000	£000	£000	£000
Balance at 31 March 2020	**(47,688)**	**(225,488)**	**(273,176)**	89	**(273,087)**
Movement in reserves during 2020/21					
(Surplus)/deficit on the provision of services	**(58)**	**0**	**(58)**	185	**127**
Other comprehensive income and expenditure	**0**	**6,413**	**6,413**	(6)	**6,407**
Total Comprehensive Income and Expenditure	**(58)**	**6,413**	**6,355**	**179**	**6,534**
Adjustment between group accounts and authority accounts	**(38)**	0	**(38)**	38	**0**
Net (Increase)/Decrease before transfers	**(96)**	**6,413**	**6,317**	**217**	**6,534**
Adjustments between accounting basis and funding basis under regulations	(14,222)	14,222	**0**	0	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**(14,318)**	**20,635**	6,317	**217**	**6,534**
Transfers to/(from) Earmarked Reserves	**0**	**0**	**0**	**0**	**0**
(Increase) / Decrease in Year	**(14,318)**	**20,635**	**6,317**	**217**	**6,534**
Movement in reserves during 2021/22					
(Surplus)/deficit on the provision of services	**(6,281)**	**0**	**(6,281)**	161	**(6,120)**
Other comprehensive income and expenditure	**0**	**(77,712)**	**(77,712)**	0	**(77,712)**
Total Comprehensive Income and Expenditure	**(6,281)**	**(77,712)**	**(83,993)**	**161**	**(83,832)**
Adjustment between group accounts and authority accounts	(112)	0	**(112)**	112	**0**
Net (Increase)/Decrease before transfers	**(6,393)**	**(77,712)**	**(84,105)**	**273**	**(83,832)**
Adjustments between accounting basis and funding basis under regulations	**7,622**	(7,622)	**0**	0	**0**
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	**1,229**	**(85,334)**	**(84,105)**	**273**	**(83,832)**
Transfers to/(from) earmarked reserves	**0**	**0**	**0**	0	**0**
(Increase) / Decrease in Year	**1,229**	**(85,334)**	**(84,105)**	**273**	**(83,832)**
Balance at 31 March 2022	**(60,777)**	**(290,187)**	**(350,964)**	**579**	**(350,385)**

GROUP BALANCE SHEET

This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group.

2020/21			2021/22	
£000	£000		£000	£000
		Long-Term Assets		
		Property, Plant and Equipment:		
384,811		Council Dwellings	418,832	
69,638		Other Land and Buildings	76,586	
2,437		Vehicles, Plant and Equipment	4,509	
3,064		Infrastructure	2,771	
537		Community Assets	537	
3,286	463,773	Assets Under Construction	3,986	507,221
	12,384	Investment Property		18,463
	16,527	Long-Term Investments		15,996
	946	Long-Term Debtors		776
	493,630	**Total Long-Term Assets**		542,456
		Current Assets		
25,053		Short-Term Investments	46,530	
267		Inventories	282	
17,732		Short-Term Debtors	11,055	
(2,987)		Bad Debt Provision	(2,718)	
8,898		Cash and Cash Equivalents	24,623	
	48,963	**Total Current Assets**		79,772
	542,593	**Total Assets**		**622,228**
		Current Liabilities		
(4,346)		Short-Term Borrowing	(4,345)	
(27,439)		Short-Term Creditors	(60,037)	
	(31,785)	**Total Current Liabilities**		(64,382)
		Long-Term Liabilities		
(122,605)		Long-Term Borrowing	(118,304)	
(2,968)		Provisions	(4,020)	
(1,401)		Capital Grants - Receipts in Advance	0	
(577)		Developers' Contributions - Receipts in Advance	(565)	
(116,704)		Net Pensions Liability	(84,572)	
	(244,255)	**Total Long-Term Liabilities**		(207,461)
	266,553	**Net Assets**		**350,385**
		Usable Reserves		
3,000		General Fund Balance	3,000	
31,686		Earmarked Reserves	25,064	
1,000		Housing Revenue Account Balance	1,000	
12,092		Capital Programme Reserve	11,880	
3,571		Capital Receipts Reserve	5,895	
0		Capital Grants Unapplied	2,001	
5,998		Community Infrastructure Levy Unapplied	7,023	
4,608	61,955	Developers' Contributions Unapplied	4,790	60,653
		Unusable Reserves		
46,601		Revaluation Reserve	83,288	
286,203		Capital Adjustment Account	295,564	
(70)		Financial Instruments Revaluation Reserve	1,406	
444		Deferred Capital Receipts Reserve	476	
(116,704)		Pensions Reserve	(84,572)	
(11,283)		Collection Fund Adjustment Account	(5,906)	
(593)	204,598	Accumulating Absences Adjustment Account	(524)	289,732
	266,553	**Total Reserves**		**350,385**

GROUP CASH FLOW STATEMENT

The Cash Flow statement shows the changes in cash and cash equivalents in the group during the reporting period. The statement shows how the Group generates and uses cash equivalents by classifying cash flows as operating, investing and financing activities.

2020/21 £000		2021/22 £000
127	Net (surplus) or deficit on the provision of services	(6,120)
(22,348)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(29,439)
2,165	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	5,580
(20,056)	Net cash flows from Operating Activities	(29,979)
20,399	Investing Activities	32,269
9,329	Financing Activities	(18,015)
9,672	Net (increase) or decrease in cash and cash equivalents	(15,725)
(18,570)	Cash and cash equivalents at the beginning of the reporting period	(8,898)
(8,898)	**Cash and cash equivalents at the end of the reporting period**	(24,623)

NOTES TO THE GROUP ACCOUNTS

1. OVERVIEW

New Forest District Council chooses to deliver its services through a variety of delivery models, either under ultimate control or in partnership with other organisations. The financial statements consider the New Forest District Council as a single entity, thus any business interests in other organisations are reflected in terms of the level of the Council's investment and not their financial performance, year-end balances and exposure to risk. In order to reflect a full picture of the Council's financial activities and business relationships, group financial statements are produced to reflect the extent of New Forest District Council's involvement in group undertakings.

The Group

The relevant accounting standards have been applied in determining how the organisations are included in the group boundary. The extent of the Council's interest and control over the entity was considered as was the materiality of the financial impact on the Council's group accounts and the transparency of less material entities to allow the reader to understand the Group's consolidated position. Following this assessment the following has been identified as being within the Council's group for financial reporting purposes.

- Subsidiaries – where the Council either wholly or majority control an entity. Therefore in the 2021/22 group accounts the Appletree Property Holdings Group Limited is included.

The Council does not have business interests in any other organisations that are not included in the group accounts.

2. ACCOUNTING POLICIES

The group accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and those International Financial Reporting Standards where CIPFA had provided guidance notes.

The accounting policies used in preparing the group accounts reflect those used by New Forest District Council in its single entity financial statements, these can be found in Note 1 of the New Forest District Council financial statements. In order to ensure consistency of accounting treatment and the alignment of policies across the group the following policies have been adopted:

Consolidation of Subsidiaries
Subsidiaries have been consolidated using the acquisition accounting basis. This is the full, line by line consolidation of financial transactions and balances of the Council and its subsidiary companies. To avoid overstating balances within the group financial statements all transactions and balances between the Council and group companies have been eliminated.

Alignment of accounting framework and policies
Where the accounting framework used by group companies differs from that of the Council, FRS102 rather than IFRS, including the accounting policies and the impact of such differences would have a material impact on the group financial statements then the relevant balances from the group companies will be adjusted to bring the accounting treatment in line with that applied by the Council.

Unrealised profits from intra-group transactions:
Any unrealised profit reflected in the carrying amount of property, plant and equipment and inventory arising from trading between the Council and its group companies will be eliminated to avoid the double counting of gains.

Company losses Accounting Treatment:
Appletree Property Holdings Limited included in the consolidation has reported losses in the year. The losses have been reported in accordance with IAS28 to the extent that all the losses have been recognised in the group accounts. These annual losses are reflected in the Group Comprehensive Income and Expenditure Account.

3. GROUP PROPERTY, PLANT AND EQUIPMENT

Valuation of Property, Plant and Equipment

The Council subsidiary operates an annual programme of property revaluations; in 2021/22 this work was carried out by the Council's valuer P. Marston, MRICS, Registered Valuer.

Movement on Property, Plant and Equipment Assets

Purchases and disposals during the year were as follows:

Movements in 2021/22:	**Council Property, Plant and Equipment**	**Council Share of Subsidiary Property, Plant and Equipment**	**Total Group Property, Plant and Equipment**
Cost or Valuation	**£000**	**£000**	**£000**
At 1 April 2021	**486,841**	1,796	**488,637**
Additions	**16,649**	1,495	**18,144**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	**37,130**	0	**37,130**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	**3,152**	(130)	**3,022**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	**(10,581)**	(70)	**(10,651)**
Derecognition - disposals	**(4,387)**	0	**(4,387)**
Other movements in cost or valuation	**0**	0	**0**
At 31 March 2022	**528,804**	**3,091**	**531,895**
Accumulated Depreciation and Impairment			
At 1 April 2021	**(24,864)**	0	**(24,864)**
Depreciation charge	**(10,046)**	0	**(10,046)**
Depreciation written out to the Revaluation Reserve	**6**	0	**6**
Depreciation written out to the Surplus / Deficit on the Provision of Services	**8,701**	0	**8,701**
Derecognition - disposals	**1,529**	0	**1,529**
At 31 March 2022	**(24,674)**	**0**	**(24,674)**

Net Book Value			
at 31 March 2022	**504,130**	**3,091**	**507,221**
at 31 March 2021	**461,977**	**1,796**	**463,773**

Comparative Movements in 2020/21:	Council Property, Plant and Equipment	Council Share of Subsidiary Property, Plant and Equipment	Total Group Property, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**
At 1 April 2020	**479,748**	425	**480,173**
Additions	**19,188**	1,562	**20,750**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	**4,685**	6	**4,691**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	**(849)**	(130)	**(979)**
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	**(14,529)**	(67)	**(14,596)**
Derecognition - disposals	**(1,402)**	0	**(1,402)**
Other movements in cost or valuation	**0**	0	**0**
At 31 March 2021	**486,841**	**1,796**	**488,637**
Accumulated Depreciation and Impairment			
At 1 April 2020	**(24,198)**	0	**(24,198)**
Depreciation charge	**(10,111)**	0	**(10,111)**
Depreciation written out to the Revaluation Reserve	**178**	0	**178**
Depreciation written out to the Surplus / Deficit on the Provision of Services	**8,958**	0	**8,958**
Derecognition - disposals	**309**	0	**309**
At 31 March 2021	**(24,864)**	**0**	**(24,864)**

Net Book Value			
at 31 March 2021	**461,977**	**1,796**	**463,773**
at 31 March 2020	**455,550**	**425**	**455,975**

4. GROUP ACCOUNTS LONG TERM DEBTORS

Group long term debtors were as follows:

31 March 2021		31 March 2022
£000		£000
5	Car Loans	2
502	Lymington Harbour Commissioners - Principal	301
439	Rent to Mortgages House Purchases	473
0	Appletree Property Holdings	0
946	**Total**	**776**

GLOSSARY OF TERMS

Budget

The Council's plans set out in financial terms. Both revenue and capital budgets are prepared and are used to control and monitor expenditure and performance.

Capital Expenditure

Expenditure on the purchase of assets, which will be of use or benefit to the Council/Community for longer than one year.

Capital Financing

The raising of money to pay for capital expenditure.

Capital Receipts

Proceeds from the sale of long-term assets e.g. land or buildings.

Direct Revenue Financing

Financing of capital expenditure by a direct charge to a revenue account. This method of finance avoids borrowing.

General Fund

The section of the Council's accounts that covers services paid for by the Council Tax, Non-Domestic Rate and Revenue Support Grant.

Housing Revenue Account

The account which records the income and expenditure relating to the provision of council housing.

Impairment

At the end of each year each asset is reviewed. Impairment is accounted for if there is evidence that there has been a reduction in value.

International Financial Reporting Standards (IFRS)

Accounting practices recommended by the major accounting bodies.

Lease

A method of financing capital expenditure where a rental charge is paid for the use of an asset over a specified period of time. This rental covers a proportion of the capital cost of the asset, together with a return on the finance provided by the leasing company.

Long-term Assets

An asset that has a life of more than one year.

GLOSSARY OF TERMS

Long-term Investments

Loans that the Council has given that are repayable after 364 days of the start of the financial year.

PWLB Debt

Borrowing that is raised from the Public Works Loan Board, a UK Central Government organisation.

Revenue Support Grant (RSG)

Grant paid by the Government to local authorities to help them finance the cost of their services. The system is designed so that if all local authorities spend at the level determined by the Government, the council tax would be the same across the country.

Revenue Expenditure/Income

The costs or income relating to the day-to-day provision of services.

Short-term Investments

Investments that the Council has made that are repayable within 364 days from the date of the original investment.

Short-term Loans

Loans that the Council has raised that are repayable within 364 days of the start of the financial year.

Support Services

The costs of professional, administrative and technical support given to the departments that provides services to the public.

This page is intentionally left blank

AUDIT COMMITTEE – 26 JANUARY 2024

FINAL ANNUAL GOVERNANCE STATEMENT – 2021/22

1. RECOMMENDATION

1.1 That the Audit Committee recommends that the Final Annual Governance Statement for the Financial Year ended 31st March 2022 as reported in Appendix 1 be approved by the Chief Executive and Leader of the Council.

2. BACKGROUND

2.1 The Audit Committee considered the draft Annual Governance Statement for 2021/22 on 31 May 2022, ahead of its inclusion within the Financial Statements for the Audit Committee on 24 March 2023. The Final Annual Governance Statement for 2021/22 is now provided at Appendix 1.

2.2 The Annual Governance Statement reflects predominately on matters arising during the financial year 2021/22 but must also reflect on any significant matters up until the date of signing by the Chief Executive and Leader of the Council. This Annual Governance Statement has since been superseded by the one for the 2022/23 financial year.

2.3 No substantive changes have been made to the Annual Governance Statement since it was presented in March 2023.

For Further Information Contact

Alan Bethune
Strategic Director Corporate Services & Transformation
Section 151 Officer
alan.bethune@nfdc.gov.uk

Background Papers

Audit Committee May 2022 - Delivering Good Governance in Local Government Framework 2016

This page is intentionally left blank

APPENDIX 1

THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2021/22

1. Scope of Responsibility

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

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

2. The Purpose of the Governance Framework

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

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

3. The Governance Framework

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

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

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

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

During 2021, the impact of the world-wide Coronavirus COVID-19 to the Council was less severe than in 2020, with new ways of working bedded down, new expenditure pressures eased, and a gradual return of customer confidence in retail and hospitality which resulted in an improvement to income streams.

Local Authorities continued to respond to new legislation and responsibilities, including payments of significant levels of mandated and discretionary business support grants and financial support to those who have suffered financial hardship, and playing a key role in the testing and vaccination programmes.

Over the years, the Council has developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2021/22 and includes arrangements with Hampshire County Council (in respect of Audit and Treasury functions) and a joint Information Office 'The Ringwood Gateway' between Ringwood Town Council, HCC and the District Council.

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

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

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes. Further work is planned for 2022/23 on Risk Management to consider whether improvements can be made to the Council's approach to risk management; this will include a fundamental refresh of the Council's Strategic Risk Register.

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

In April 2021, Cllr Edward Heron was appointed Leader of the Council, and Cllr Jill Cleary was appointed as Deputy Leader. In November 2022, Cllr Heron stood down as Leader and Cllr Cleary was appointed the new Leader of the Council. The Council's new Chief Executive, Kate Ryan, commenced employment with the Council in December 2021 following a robust recruitment exercise.

During 2021/22, the Solent Freeport bid continued to be developed in line with government requirements, ultimately leading to submission of the Full Business Case (FBC) in April 2022, to which the Council gave its approval. The Section 151 Officer, Monitoring Officer, Executive Head for Planning, Regeneration and Economy and Chief Executive were all involved throughout the preparation of the FBC, and a number of briefing sessions took place for Councillors over the course of the year. The Council has representation on the Solent Freeport Consortium Ltd Board, and on the Investment Committee, the latter set up to evaluate projects for funding from the retained business rates pool.

4. Review of Effectiveness

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

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

A summary of the review activities undertaken during 2021/22 are included below:

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

    - Worksmart Policy
    - Empty Homes Strategy
    - Corporate Plan 2024 Refresh
    - Control of Asbestos and Control of Contractors Policies
    - Joint Municipal Waste Management Strategy
    - Climate Change and Nature Emergency Action Plan
    - Local Planning Enforcement Plan
    - Numerous Business Support Grant Policies

2. The Council's new Chief Executive, Kate Ryan, commenced employment with the Council in December 2021. The Council's Executive Management Team (EMT) otherwise remained unchanged throughout 2021/22. In October 2022, the Council received a report from the Chief Executive finalising a review of the Senior Leadership structure. The Council agreed to the proposed changes to move from 4 x Executive Heads to 3 x Strategic Directors, and as a result, the previous Executive Head for Financial and Corporate Services is now the Strategic Director for Corporate Resources and Transformation, and the Executive Head for Governance and Housing is now the Strategic Director for Housing, Communities and Governance. A new Strategic Director for Place, Operations and Sustainability has been appointed and will begin employment with the Council in March. Executive Head titles have been used throughout the rest of this AGS, as reflective of the positions held during the 2021/22 financial year.

3. The responsibility of Section 151 functions (a statutory role) sits with the Strategic Director for Corporate Resources and Transformation (previously Executive Head of Financial (S151) and Corporate Services). The Strategic Director for Housing, Communities and Governance (previously Executive Head of Governance and Housing) is the Monitoring Officer, which is also a statutory role. All committee reports are reviewed by members of the Executive Management

Team, as well as being provided to the Strategic Director for Housing, Communities and Governance (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure that decisions are taken lawfully and that risks are properly considered.

4. One of the requirements of the GDPR is to appoint a Data Protection Officer (DPO). The role of the DPO is to oversee the Council's compliance with GDPR and provide advice in relation to the law. The DPO position is held by the Council's Information Governance and Complaints Manager, who is a Solicitor who holds the EU General Data Protection Regulation Practitioner qualification.

5. A review into how the Council deals with data handling processes and procedures, including Freedom of Information ('FOI') and Subject Access Requests was carried out in 2021/22. A dedicated Team (the 'Information Governance and Complaints Team') was set up to lead the Council's response on Information Governance. The new Team reports directly to the Council's Monitoring Officer. The Information Governance and Complaints Manager has direct access to EMT and has reported the teams work programme and progress to EMT during 2021/22.

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

7. Proposals for asset maintenance and replacement expenditure and capital projects are supported by a business case as are new requests for revenue resources. For the 2021/22 budget process, these were scrutinised initially by EMT and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. From April 2022, a new Capital and Change Board has been established, with EMT and a number of Service Managers being placed on this board. This new board, which meets monthly, will provide the oversight and scrutiny of new projects as well as tracking their delivery. The financial planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by Council each year.

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

9. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review of the Council's Financial Regulations was completed during 2021/22 with the new regulations presented to and endorsed by the Audit Committee. The new regulations went live during April 2022, following approval by full Council.

10. Performance Management ensures strategic monitoring with a focus on organisational and service based indicators, reflecting the aims and objectives of the Corporate Plan. A review of the Council's Performance Management Framework commenced during 2021/22, in line with a refresh of the Corporate plan 2020-2024, and both were finalised in the year. Portfolio Holder dashboards were presented to Overview and Scrutiny Panels during 2021/22 increasing transparency of performance and risks to service delivery.

11. The Audit Committee meet regularly and training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to

the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.

12. The Council's approach to risk management has been long standing and was reviewed during 2022. The Audit Committee has Strategic Risk Management within their scope, and an updated Risk Management Policy and updated Strategic Risk Register was brought forward to the committee during 2022. The Council's Strategic Risk Register was continually reviewed during 2021/22. The document remains under regular review as a result of the constantly changing national and international situation.

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

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

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

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

17. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. The Council is a member of the Cyber security Information Sharing Partnership (CISP) and has signed up the South East Government Warning, Advisory and Reposting Point (providing information, knowledge and alerts on threat and incidents.

18. Internal Audit has reported a 'Reasonable' opinion on the overall control environment. Two limited assurance audit opinions were given and monitoring of progress against the management actions of these audits will continue into 2022/23. The following audit area has previously received high priority recommendations:
    - Payment Card Industry Data Security Standard Accreditation
        - Work has been ongoing during 2021/22 with 2 update reports presented to the Audit Committee on this matter (May 2022 and March 2023)

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

delivers on the Council's service specification and performance indicators. This board has met monthly since the commencement of the contract, and update reports have been presented to the Community, Partnerships and Wellbeing Board during the financial year.

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

5. Financial Management Code

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

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

The Section 151 Officer carried out a review and presented a report on the Financial Management Code to the Audit Committee in July 2022. The report included an appendix detailing the CFO's assessed level of compliance with the Code.

6. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following significant areas will be included in the action plan (schedule 1):

1. Financial Management Code
2. Updated Risk Management Strategy

7. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2022 and up to the date of approval of the annual report and statement of accounts.

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

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

Schedule 1

Annual Governance Statement Action Plan for 2022/23

Heading	Update / Action	Responsible	Target
Financial Management Code	Following the introduction of the CIPFA Financial Management Code, the Council's CFO will undertake an assessment of it's compliance with the code. Action: CFO to carry out a review and report to EMT / Audit Committee	Chief Finance Officer	July 2022
Risk Management Strategy	The Council's Risk Management Strategy will be updated during 2022/23, and will result in a refreshed approach to risk management, including a fundamental review of the Risk Registers in place across the Council. Action: to complete Risk Strategy update, and follow up on revised working practises that result	Insurance and Risk Management Officer	Oct 2022

Building a better working world

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

6 December 2023

Dear Section151 Officer colleagues

Local Audit market update

I am writing as a follow up to my letter of 26 July 2023 about Government proposals to re-establish the local authority audit framework on a more sustainable basis, with a focus on providing assurance on public bodies' most recent financial information.

The proposals were referenced in a ministerial statement over the summer, but formal guidance from the Department for Levelling Up, Housing & Communities (DLUHC) and the Financial Reporting Council (FRC), as the incoming shadow system leader, are still pending. As such, I wanted to use this opportunity to update you on EY's approach and how we are prioritising our delivery to best prepare for implementation of the proposals.

About the proposals

The challenges facing the existing framework for local authority audit are well-documented and have been highlighted by auditors, the Redmond Review, the National Audit Office, the Public Sector Audit Appointments Ltd (PSAA), the Local Government Association and Parliament. The problem continues to grow. Recently, the PSAA reported that only 5 out of 467 Local Government bodies received a 2022/23 audit opinion by 30 September 2023, taking the total outstanding opinions to around 918.

The Government's proposals will help to reset local authority audit, with auditors able to focus on providing assurance on public bodies' most recent financial statements. Additionally, there will be benefits to authorities in reducing demands on your teams by allowing them to focus on the most recent financial year.

Since the cross-system ministerial statement EY has invested significantly in engaging with DLUHC and the FRC, as well as other stakeholders to support the reset and recover the local audit market. Whilst we cannot pre-empt the final ministerial guidance, and the below may be subject to change, we understand that the proposals will still seek to:

- Use legislation to set statutory deadlines (backstop dates) for account preparers and auditors to clear the backlog, acknowledging this will result in qualifications and disclaimers of opinions in the short term. This is currently expected to be 31 March 2024.
- Continue to require auditors to report on value for money, alongside existing statutory powers.
- Find a sustainable solution for the future, which may require:
    - Changes to the CIPFA code for preparation of accounts;
    - An audit approach that seeks to rebuild assurances on account balances over a period of time rather than in the first year following a qualification (disclaimer or scope limitation);
    - Developing an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines; and
    - Continued investment in the capacity in the audit market.

Our approach

Following the ministerial statement in July and the continuing expectation of a 31 March 2024 backstop date for the completion of all outstanding audits to 2022/23, we have taken a number of steps to support the delivery of consistent high-quality audits and prepare for implementation of the proposals. These include:

- **Maximising the completion of historic audits** – working to close open audits where audit work is substantially complete and with a high likelihood of issuing an opinion in a short period of time. Currently, the delivery of these audits is likely to be phased through to early 2024.
- **Pension fund audits** – These audits are not subject to the reset of the system; we continue to prioritise completion of all these audits to 2022/23.
- **Value for Money reporting** – As there are no anticipated changes to value for money reporting requirements, auditors' exception reporting responsibilities and statutory powers we continue to prioritise the completion of our reporting up to the 2022/23 financial year. Given the increasing focus on the financial sustainability of the local government sector, as well as a focus on those authorities who are seen to be at greater risk of not achieving value for money, this is an important priority in providing necessary assurances to stakeholders.
- **Planning for 2023/24 audits** – Where capacity allows, we will seek to commence planning for 2023/24; focusing on the most recent set of financial statements and supporting the reset.

This clarity in approach has enabled us to successfully close out a higher proportion of historic audits over the last few months, seeking to maximise the level of assurance provided whilst we await further statements and/or consultations on the proposed measures to reset the local audit system. It also means that we are focused on areas of the audit that will either provide or contribute to a final reporting deliverable to you.

We are continuing to engage with DHLUC and the FRC on the proposals and will continue to review our approach as more information becomes available.

Preparing for the proposals – our ask of you

To ensure we can respond positively and quickly when the Government proposals are finalised, it would be helpful if you could continue to do the following:

- **Stakeholder engagement** – Ensure key stakeholders in your organisation are sighted on the Minister's proposals and recent communications, including this letter, so that they are apprised on the status and decisions being made.
- **Flexibility** – We understand that the issues experienced by the preparers of financial statement and auditors over the last few years have been difficult to manage, and that collectively we have a finite level of capacity. We ask that you continue to work with us on the priority areas above.
- **Financial statement preparation** – We know that there are some authorities where draft financial statements through to 2022/23 have not yet been prepared and subject to an inspection period. If you are one of those authorities, this needs to be prioritised to meet your statutory responsibilities regardless of the last year of audit. Failure to do so may also prevent our ability to close out historic audits and issue an opinion as part of the proposed reset, as well as being able to move forward with your 2023/24 audit within the required timelines.
- **Planning for 2023/24 year-end** – Acknowledging that it has been a while since we have all operated under traditional delivery deadlines, we would like to engage with you to ensure the effective reset and recovery from the 2023/24 financial year. Going forward, it will be important to agree joint protocols for ways of working, as well as expectations on accounts and audit preparation and delivery.

Audit plays a vital role in underpinning trust, transparency, and confidence in local government bodies; EY is committed to our role in serving the public interest by delivering consistent high-quality audits. As we collectively navigate through the proposals and this period of uncertainty, I wanted to thank you for your engagement to date. The proposed system reset offers all stakeholders an important opportunity to move forward. We remain committed to achieving the reset of the local audit system and look forward to continuing to work collaboratively with you over the coming months.

If you or your elected members have any questions or would like to discuss any aspect of this letter, please don’t hesitate to contact me or your key audit partner.

Yours sincerely

Stephen Reid
Partner, UK Head of Public Sector Audit
for and on behalf of Ernst & Young LLP

This page is intentionally left blank

AUDIT COMMITTEE – 26 JANUARY 2024

INTERNAL AUDIT PROGRESS REPORT 2023-24 (DECEMBER 2023)

1. RECOMMENDATIONS

1.1 That the Audit Committee note the content of the progress report, attached as Appendix A, summarising internal audit progress with delivering the 2023-24 audit plan to 31st December 2023.

2. INTRODUCTION

2.1 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.

3. BACKGROUND

3.1 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.

3.2 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.'

3.3 The progress report, attached as Appendix A, summarises the performance of Internal Audit for 2023-24 to 31st December 2023.

4. FINANCIAL IMPLICATIONS

4.1 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 2023-24 reflects these arrangements.

5. CRIME & DISORDER IMPLICATIONS

5.1 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.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no matters arising directly from this report.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1 There are no matters arising directly from this report.

8. DATA PROTECTION IMPLICATIONS

8.1 There are no matters arising directly from this report.

For further information contact:

Antony Harvey
Deputy Head of Partnership (SIAP)
07784 265289
antony.harvey@hants.gov.uk

Background Papers:

Internal Audit Plan 2023-24

Internal Audit Progress Report 2023-24

December 2023

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.

170

2. Purpose of report

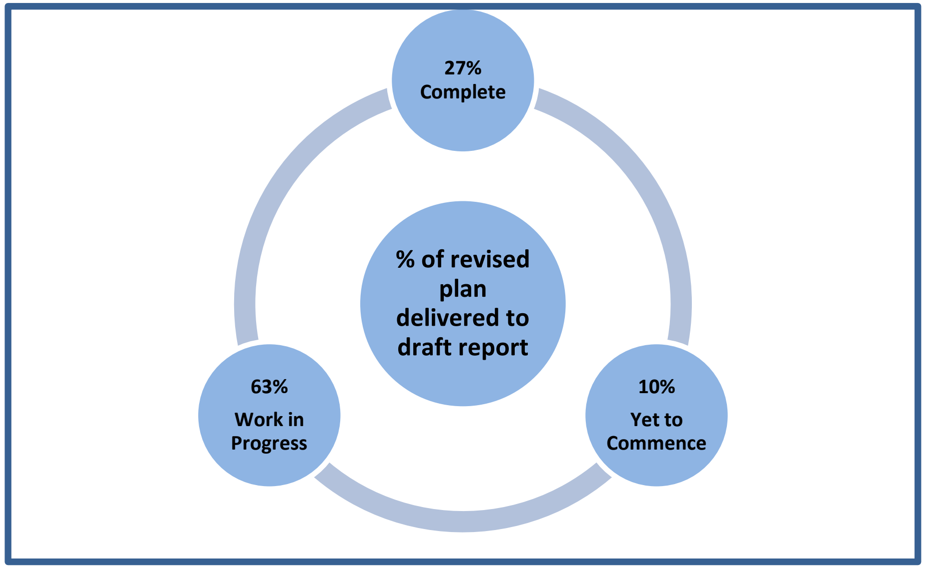
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

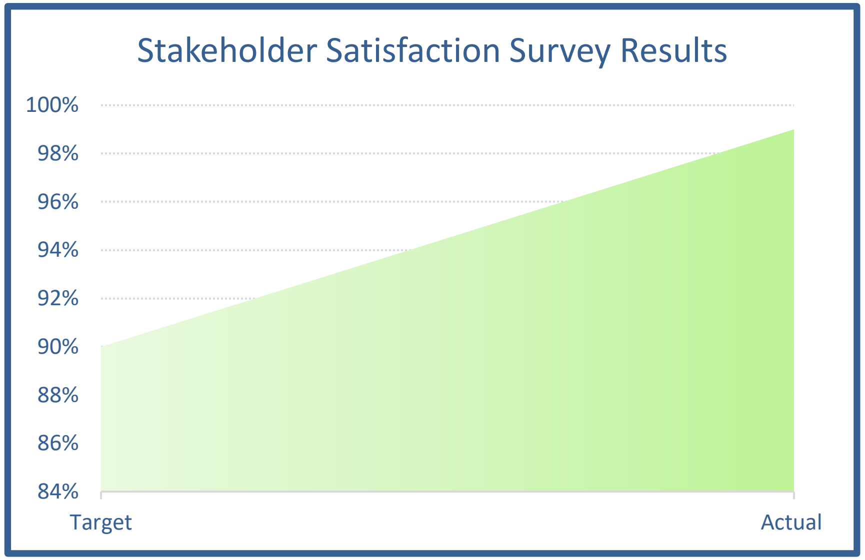
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

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.

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

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Income Collection and Banking	Jun 21	SM (R&CS)	Reasonable	4	2	2			
Cyber Security	Jul 21	ICTOM	Reasonable	8	0	6		2	
Lease Income and Charges	Aug 22	SM (E&V)	Reasonable	2	0	1	1		
Homelessness – Triage	Apr 23	SM (HO)	Reasonable	6	0	3	3		
Fleet Management (follow-up phase 2)	May 23	SM (W&T)	Reasonable	9	0	0	2	3	4
Identity Management (ICT)	May 23	ICTOM	Reasonable	6	0	5		1	
IT Asset Management *	**May 23**	**ICTOM**	**Limited**	**11**	**0**	**11**			
Risk Management – Follow-up *	**Jun 23**	**SDCR&T**	**n/a**	**7**	**0**	**7**			
Engineering Works	Aug 23	SM (C)	Limited	10	7	0	1	1	1
Commercial Activities – Appletree Holdings	Oct 23	SM (E&V)	Substantial	1	1	0			
Employee Benefits/Salary Sacrifice Scheme *	**Oct 23**	**SM (HR)**	**Reasonable**	**4**	**0**	**4**			
NNDR	Nov 23	SM (R&CS)	Reasonable	4	3	1			
Open Spaces and Playground Safety Checks	Dec 23	G&SM	Limited	12	2	5		4	1
Total							**7**	**11**	**6**

* Denotes audits where all actions have been completed since the last progress report

Audit Sponsor		Audit Sponsor	
Strategic Director Housing, Communities & Governance	SDHC&G	ICT Operations Manager	ICTOM
Assistant Director Housing	ADH	Transformation & Improvement Manager	T&IM
Service Manager (Housing Maintenance & Compliance)	SM (HM&C)	Performance & Insight Manager	P&IM
Service Manager (Housing Options, Rents, Support and Private Sector Housing)	SM (HO)	Strategic Director Place, Operations & Sustainability	SDPOS
Service Manager (Housing Strategy & Development)	SM (HS&D)	Assistant Director Place Operations	ADPO
Service Manager (Estate Management & Support)	SM (EM&S)	Service Manager (Coastal)	SM (C)
Service Manager (Democratic Services)	SM (DS)	Service Manager (Waste & Transport)	SM (W&T)
Service Manager (Legal Services)	SM (LS)	Environment Enforcement & Amenities Manager	EE&AM
Service Manager (Environmental & Regulation)	SM (E&R)	Grounds & Streetscene Manager	G&SM
Information Governance & Complaints Manager	IG&CM	Assistant Director Place Development	ADPD
Strategic Support Manager	SSM	Service Manager (Development Management)	SM (DM)
Strategic Director Corporate Resource & Transformation	SDCR&T	Service Manager (Planning Policy and Infrastructure)	SM (PP&I)
Assistant Director Transformation	ADT	Economic Development Manager	EDM
Service Manager (Revenues & Customer Services)	SM (R&CS)	Building Control Team Leader	BCTL
Service Manager (Human Resources)	SM (HR)		
Service Manager (Estates & Valuation)	SM (E&V)		
Service Manager (Finance)	SM (FIN)		
Service Manager (Elections & Business Improvement)	SM (E&BI)		
Data Development & Delivery Manager	DDDM		

174

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

No audits have concluded with a ‘Limited’ or ‘No’ Assurance Opinion.

6. Planning & Resourcing

The Internal Audit Plan for 2023-24 was agreed by EMT and approved by the Audit Committee in March 2023. 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
2022-23 Audits (included within the annual report and opinion)								
Open Spaces and Playground Safety Checks	G&SM	✓	✓	✓	Dec 22	Dec 23	Limited	
Engineering Works	SM (C)	✓	✓	✓	Sep 22	Aug 23	Limited	
2023-24 Audits								
Corporate / Governance Framework								
Transformation Programme – Governance Arrangements	ADT	✓	✓	✓				
Corporate Governance Framework – Fraud Framework	SM (R&CS)	✓	✓	✓				
Commercial Activities – Appletree Holdings	SM (E&V)	✓	✓	✓	Sep 23	Oct 23	Substantial	
Business Continuity	SM (E&R)	✓	✓	✓	Jul 23			
Information Governance – Data Retention/Records Management	IG&CM	✓						Q4

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Procurement	SDCR&T	✓	✓	✓				
Contract Management – Leisure Contract	SDCR&T							Q4
Health and Safety	SM (HR)	✓	✓	✓				
Emergency Planning	SM (E&R)	✓	✓	✓				
Risk Management	SM (FIN)	✓						Q4
Human Resources								
Employee Benefits/Salary Sacrifice Scheme	SM (HR)	✓	✓	✓	Sep 23	Oct 23	Reasonable	
Core Financial Systems								
Council Tax – Debt Management & Resident Support	SM (R&CS)	✓	✓	✓	Nov 23	Nov 23	Substantial	
NNDR	SM (R&CS)	✓	✓	✓	Nov 23	Nov 23	Reasonable	
Accounts Payable	SM (FIN)	✓	✓	✓				
Income Collection and Banking	SM (FIN)	✓	✓	✓	Dec 23	Dec 23	Substantial	
Information Technology								
IT – Contract Management	ICTOM	✓	✓	✓				
IT – Asset Management Follow-up	ICTOM	✓	✓	✓				
Portfolio Themes								
Homelessness – Prevention and Relief	SM (HO)	✓	✓	✓				
Housing Allocations	SM (HO)							Q4
Housing Management - Rents	SM (HO)							Q4
Housing Asset Management – Electrical Safety Checks	SM (HM&C)	✓	✓	✓	Oct 23			
Disabled Facilities Grants	ADH	✓						Q4
CIL/S106/Developer Obligations	SM (DM)	✓						Q4

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Environmental Services – Garden Waste Collection	ADPO	✓	✓					Q4
Licencing	SM (E&R)	✓						Q4
Parking and Enforcement	EE&AM	✓	✓	✓				
Clean Streets – Enforcement	EE&AM	✓	✓	✓				
Keyhaven – Inspection/Enforcement	SM (C)	✓						Q4
Telecare	SM (EM&S)	✓						Q4
Changing Places Grant **	SDCR&T	✓	n/a	✓	n/a	Sep 23	n/a	Grant certified

177

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
Business Continuity *	Carried forward from 2022-23 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Housing Asset Management – Electrical Safety Checks *	Carried forward from 2022-23 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Changing Places Grant **	DLUHC changing places grant requiring certification that usage is in line with the grant conditions.

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
HR - Performance Management Reviews **	Defer the review to 2024-25 to align with the approval of the new/refreshed Corporate Plan and subsequent development / cascade of performance measures to individual performance management reviews.
Performance Management Framework ***	Defer the review to 2024-25 to align with the approval of the new/refreshed Corporate Plan and subsequent cascade of performance measures to Services.
Planning / Development Management – End to end process ***	Defer the review as new Planning/Development Management system has not been implemented within anticipated timeframes pending further developments required from the system provider.
Housing Asset Management – Voids ***	An action plan to address voids has been developed therefore defer the review to 2024-25 in order to assess progress with the action plan.

* Agreed July 2023

** Proposed October 2023

*** Proposed January 2024

This page is intentionally left blank

AUDIT COMMITTEE – 26 JANUARY 2024

TREASURY MANAGEMENT STRATEGY REPORT 2024/25

1. RECOMMENDATIONS

The Audit Committee is recommended to request Council to approve the key element of this report:

1.1. The Treasury Management Strategy 2024/25 to 2026/27 including the Annual Treasury Management Investment Strategy for 2024/25 (and the remainder for 2023/24) and the Treasury Indicators contained within Annex A.

1.2. That authority is delegated to the Section 151 Officer, who in turn delegates to Hampshire County Council's Deputy Chief Executive and Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all Council investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

2. INTRODUCTION

2.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

2.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

3. POLICIES AND APPROVALS REQUIRED

3.1. Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three-year period from 2024/25 to 2026/27. The day-to-day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.

This report has been prepared prior to the adoption of the Capital Programme for 2024/25 and subsequent years. Therefore, the target indicators may be subject to minor variation. These indicators are targets only and minor adjustments will not be reported.

Any adjustments to the treasury management limits will be reported.

3.2. Treasury Management Investment Strategy

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (the CIPFA Code). This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Treasury Management investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This strategy is shown in Annex A in Section 5.

The above policies and parameters provide an approved framework within which officers undertake the day-to-day treasury activities.

This strategy aims to strike a balance between allowing for current investment levels to continue, whilst also considering the Council's intention to directly invest in both commercial and residential property.

4. ENVIRONMENTAL IMPLICATIONS

4.1. There are no environment implications arising from this report.

5. CRIME AND DISORDER IMPLICATIONS

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

TREASURY MANAGEMENT STRATEGY 2024/25 – 2026/27

1. INTRODUCTION

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

2. EXTERNAL CONTEXT

2.1. The following paragraphs explain the economic and financial background against which the TMSS is being set.

2.2. Economic background

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from 4.6% the previous month, and in line with the recent trend being lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again being lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target and then falling below target during the second half of 2025 and into 2026.

2.3. Credit outlook

Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Quarter 2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility was lower in 2023 compared to 2022, but 2023 saw more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on the Council's treasury adviser, Arlingclose's, counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

2.4. Interest rate forecast (December 2023)

Although UK inflation and wage growth remain elevated, the Council's treasury management adviser, Arlingclose, forecasts that Bank Rate has peaked at 5.25%. The BoE's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Quarter 3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

3. BALANCE SHEET SUMMARY AND FORECAST

3.1. On 31 December 2023, the Council held £118.2m of borrowing and £56.7m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance Sheet Summary and Forecast	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
General Fund CFR	27.5	29.0	28.8	34.3	32.8
Housing Revenue Account CFR	10.8	21.1	31.6	40.4	50.0
HRA Settlement	118.1	114.0	109.9	105.8	101.7
Total CFR	**156.4**	**164.1**	**170.3**	**180.5**	**184.5**
Less: External borrowing *	(118.3)	(114.0)	(109.9)	(105.8)	(101.7)
Internal borrowing	**38.1**	**50.1**	**60.4**	**74.7**	**82.8**
Less: Balance sheet resources	(69.6)	(52.8)	(45.4)	(43.2)	(40.7)
New borrowing or Treasury investments (-)	**(31.5)**	**(2.7)**	**15.0**	**31.5**	**42.1**

* shows only loans to which the Council is committed and excludes optional refinancing

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3. The General Fund CFR is showing an increase over the period as the Council implements the new Waste Strategy. New commercial and residential investment schemes have currently been put on hold due to the current interest rates making schemes less viable. The Housing Revenue Account (HRA) CFR is also increasing as the Council looks to deliver the requirements arising from Decarbonisation and the current housing development programme, as per the Housing Strategy to 2026. Table 1 demonstrates that the Council will be internally borrowed beyond the resources available for investment. At this point, an external borrowing position potentially sets in. At the appropriate time the Council will consult with its treasury advisors on how best to service its borrowing requirements, including the possibility of renewing maturing loans on the HRA.

3.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation.

3.5. **Liability benchmark**

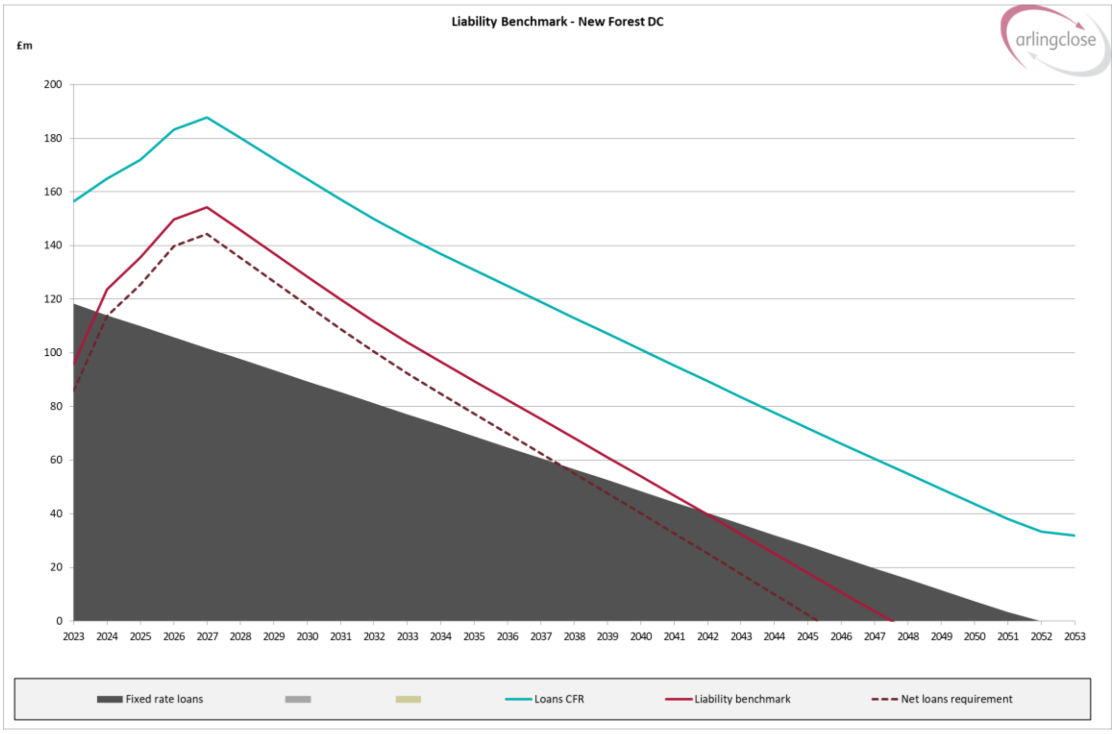
To compare the Council's actual borrowing against an alternative strategy, CIPFA requires that a liability benchmark is calculated to show the lowest risk level of borrowing. This assumes the same forecasts as Table 1 but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Liability benchmark	**31/03/23 Actual £m**	**31/03/24 Estimate £m**	**31/03/25 Forecast £m**	**31/03/26 Forecast £m**	**31/03/27 Forecast £m**
Total CFR	156.4	164.1	170.3	180.5	184.5
Less: Balance sheet resources	(69.6)	(52.8)	(45.4)	(43.2)	(40.7)
Net loans requirement	**86.8**	**111.3**	**124.9**	**137.3**	**143.8**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**96.8**	**121.3**	**134.9**	**147.3**	**153.8**

At the start of the period, 31 March 2023, the Council had a Total CFR of £156.4m, external borrowing of £118.3m, balance sheet resources of £69.6m and a liability benchmark of £96.8m. The difference of £38.1m between the CFR and external borrowing is internal borrowing which is where the Council has used its own resources to fund its borrowing requirement.

Graph 1: Liability Benchmark Graph



The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is based on five years of data which explains why the Loans CFR line in Graph 1 continues to reduce past the initial five year period – the diagram assumes that no new capital projects will begin after 2026/27, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

The Council expects a positive liability benchmark across the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.

The chart shows that by 31 March 2024 it is expected that the external borrowing the Council has already arranged will not be sufficient, with it being below the minimum borrowing requirement, and so indicates that additional borrowing may be required to rectify this. In addition, Table 1 forecasts treasury investment balances of £2.7m as at 31 March 2024; to meet MiFID II (Markets in Financial Instruments Directive) requirements of retaining professional investor status the Council is required to retain an investment balance of at least £10m, and therefore it is indicated that potentially short term borrowing is required to ensure the investment balances remain above £10m.

Unfortunately, a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon (particularly after 2026/27 after the end of the current capital expenditure forecast period) and so as time passes, the requirement to borrow may change and either may not be there for the whole period, or alternatively cash flow requirements that are not known about today may become present later which may require the Council to take additional external borrowing in the future.

4. BORROWING STRATEGY

4.1. The Council currently holds £118.2m of loans. The balance sheet forecast in Table 1 shows that there is expected to be a small investment balance of £2.7m as at 31 March 2024. To ensure that investment balances remain above £10m there may be a requirement to borrow during 2023/24, subject to actual cashflow requirements. Further borrowing is then anticipated in 2024/25 and future years. The Council may also borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £230.5m.

4.2. Objectives

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.3. Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium term to either use internal resources, or to borrow short-term loans instead.

By internally borrowing, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future costs low, even if this causes additional cost in the short-term.

The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. The Council may take the decision to retain the level of current borrowing attributed to the Housing Revenue Account to meet forthcoming pressures related to maintenance and building requirements. The level of borrowing could be retained through rearranging PWLB loans on maturity.

The Council may also arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

4.4. Sources of borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.5. Other sources of debt finance

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

- similar asset backed finance

4.6. Short-term and variable rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises, which is monitored through the indicator on interest rate exposure in the treasury management indicators below.

4.7. Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5. TREASURY INVESTMENT STRATEGY

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £28.9m and £76.5m, and balances are expected to reduce over the forthcoming year due to internal borrowing in relation to the capital programme.

5.2. Objectives

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

5.3. Strategy

As demonstrated by the liability benchmark above, the council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

Given the increasing risk the Council aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

At 31 December 2023 approximately 44% of the Council's investment balances were invested so that they were not subject to bail-in risk, as they were invested in Government investments, pooled property and equity funds, and secured bank bonds. Of the 56% of investment balances that were subject to bail-in risk, 85% were held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and 15% were held in overnight bank call accounts for liquidity purposes.

Further detail is provided at Appendix B.

5.4. Environmental, social and governance factors

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

5.5. Business models

Under the new IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. Investments targeting higher returns

In previous years the Council earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher interest rates than what was being achieved by cash investments and significantly increased the annualised average income return for the total investment portfolio.

Following the increases in UK Bank Rate the decision was made to subsume the investments targeting higher returns within the long-term investment portfolio as there was no longer a significant difference between the interest rates being achieved by those investments and cash, as short-term interest rates are now comparable with longer term interest rates.

The Council will however continue to make use of long-term balances, making investments in longer term investments including local authorities, other asset classes and regions, fixed capital value and pooled funds to mitigate the risk of low interest rates which will affect cash investments when UK Bank Rate is reduced. This diversification also helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

The Council continues to invest in pooled funds which enables it to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

Diversification in itself does not guarantee positive outcomes. The selection of a pooled fund is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the Council's income returns aims without putting its initial investment at undue risk over the longer term. The Council is therefore currently invested in a pooled fund that specialises in providing income returns to support the revenue budget. As a result of their income focus this fund may not achieve the same capital growth and therefore total return, as other more general investment funds, however it is likely to deliver good income returns for the longer term.

The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The Council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The Council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the Council would avoid selling investments that realised a capital loss. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities that exempts them from complying with this requirement.

5.7. Investment limits

The maximum that will be lent to any one organisation (other than the UK Government) will be £8 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 3.

Table 3: Investment limits	Cash limit
Any single organisation, except the UK Central Government	£8m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£20m per manager

5.8. Approved counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown.

Table 4: Sector and counterparty limits			
Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	30 years	Unlimited	N/A
Local authorities & other government entities	25 years	£8m	Unlimited
Secured investments *	25 years	£8m	Unlimited
Banks (unsecured) *	13 months	£4m	Unlimited
Building societies (unsecured) *	13 months	£4m	£8m
Registered providers	5 years	£4m	£20m
Money market funds *	N/A	£8m	Unlimited
Strategic pooled funds	N/A	£8m	£40m
Real estate investment trusts	N/A	£8m	£20m
Other investments *	5 years	£4m	£8m

This table must be read in conjunction with the notes below

5.9. * Minimum credit rating

Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-/A3. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

5.10. Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

5.11. Secured investments

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

5.12. Banks and building societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.13. Registered providers (unsecured)

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.14. Money market funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.15. Strategic pooled funds

Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.16. Real estate investment trusts (REITs)

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

5.17. Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

5.18. Operational bank accounts

The Council may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Council's operational bank account is with Lloyds and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.19. Risk assessment and credit ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,

- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.20. Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022 this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

5.21. Reputational aspects

The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

5.22. Liquidity management

The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

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

6.2. Interest rate exposures

The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 5: Interest rate risk indicator	31 December 2023 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	56.7	+/- 0.6
Borrowing	(4.2)	+/- 0.0

6.3. Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 6: Refinancing rate risk indicator	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.4. Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 7: Price risk indicator	**2024/25**	**2025/26**	**2026/27**	**No fixed date**
Limit on principal invested beyond a year	£20m	£15m	£15m	£10m

7. RELATED MATTERS

7.1. The CIPFA Code requires the Council to include the following in its TMSS.

7.2. Financial derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.3. Housing Revenue Account

On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the bank base rate.

7.4. Markets in Financial Instruments Directive

The Council has opted up to professional client status with its providers of financial services, incgluding advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the s151 Officer believes this is the most appropriate status.

8. Financial Implications

The budget for investment income in 2024/25 is £1.2m, whilst the budget for debt interest paid in 2024/25 is £5.3m, based on an average debt portfolio of £118m at an average interest rate of 3.34%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. Interest paid on any new borrowing will depend on the actual level of borrowing necessary and the interest rates obtained on that borrowing.

9. Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 8.

Table 8: Alternative strategies and their implications		
Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related

Table 8: Alternative strategies and their implications		
Alternative	**Impact on income and expenditure**	**Impact on risk management**
		defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Quarter 3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Quarter 3 2024 to a low of around 3% by early mid 2026.

- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position at 31 December 2023

Treasury investment position

Investments	30/09/2023 Balance £m	Net movement £m	31/12/2023 Balance £m	31/12/2023 Income return %	31/12/2023 Weighted average maturity years
Short term Investments					
Banks and building societies:					
- Unsecured	4.8	-	4.8	4.48	0.01
- Secured	2.8	-	2.8	5.20	0.04
- High quality	1.5	(1.5)	-	N/A	N/A
Money Market Funds	23.4	1.5	24.9	5.33	0.01
Government:					
- Local authorities	4.5	1.5	6.0	5.58	0.33
- UK Treasury bills	1.0	5.0	6.0	5.32	0.18
- Debt Management Office	-	1.1	1.1	5.19	0.01
Cash plus funds	2.0	-	2.0	3.57	0.01
	40.0	**7.6**	**47.6**	**5.19**	**0.07**
Long term investments					
- Pooled property*	7.6	-	7.6	4.52	N/A
- Pooled equity*	1.5	-	1.5	6.00	N/A
	9.1	**-**	**9.1**	**4.76**	**N/A**
TOTAL INVESTMENTS	**49.1**	**7.6**	**56.7**	**5.12**	**0.07**

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2023 based on the market value of investments 12 months earlier.

Treasury management Position	31/12/2023 Balance £m	31/12/2023 Rate %
External Borrowing		
- PWLB	(118.2)	(3.3)
Investments		
- Investments	56.7	5.1
Net Debt	**(61.5)**	

Appendix C - Q3 2023/24 Treasury Management Indicators at 31 December 2023

Investment limits	31/12/23 Actual £m	2023/24 Authorised Limit £m	Complied
The UK Government	7.1	Unlimited	✓
Local authorities & other government entities	6.0	Unlimited	✓
Secured investments	2.8	Unlimited	✓
Banks (unsecured)	4.8	Unlimited	✓
Building societies (unsecured)	0.0	£10m	✓
Registered providers	0.0	£10m	✓
Money market funds	24.9	Unlimited	✓
Strategic pooled funds	11.1	£50m	✓
Real estate investment trusts	0.0	£10m	✓
Other investments	0.0	£10m	✓

Debt limits	2023/24 Maximum £m	31/12/23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied
Total debt	(118.5)	(118.2)	(207.2)	(225.5)	✓

Refinancing rate risk indicator	31/12/23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	65%	100%	0%	✓

Long term investments	2023/24 £m	2024/25 £m	2025/26 £m
Actual principal invested beyond a year	9.1	9.1	9.1
Limit on principal invested beyond a year	35	35	35
Complied	✓	✓	✓

AUDIT COMMITTEE – 26 JANUARY 2024

INVESTMENT STRATEGY 2024/25

1. RECOMMENDATIONS

1.1. The Audit Committee is recommended to request Council to approve the Investment Strategy 2024/25.

2. INTRODUCTION

2.1. The Council currently holds, and has approved strategy in place to increase its exposure in a variety of Investments held in part for the purpose of generating additional income to the Council.

2.2. By producing this overarching investment strategy report, the Council is following statutory guidance issued by the Government in January 2018.

3. OVERVIEW OF WHAT IS INCLUDED IN THE INVESTMENT STRATEGY

3.1. **Treasury Management Investments**

The Investment Strategy has regard to the Treasury Management Strategy, which sets out in detail how the Council's treasury service will invest surplus cash, taking into consideration the requirements of the Council's capital programme, and other financing needs. The balance of treasury management investments fluctuates and can exceed £80m at given points during a fiscal period.

3.2. **Property Investments**

The Property investments section of the strategy brings together properties which have been in NFDC ownership for several years, as well as the accumulation of property investment strategies that have been adopted more recently by this Council. Although the primary purpose of these adopted strategies is to support the economic sustainability and regeneration within the District and provide additional housing to support New Forest residents and communities, the strategies also generate a revenue return, hence being prevalent to this investment strategy.

The strategy considers the contribution made by these investments, the security, the risk assessment process and liquidity.

The strategy sets out various performance indicators, designed to assist readers understand the implications of the Council's investing activities on the general fund, and the forecast yields expected from the differing investment categories.

For Further Information Please Contact:	**Background Papers:**
Alan Bethune Strategic Director Corporate Resources & Transformation Section 151 Officer Telephone: (023) 8028 5001 E-mail: Alan.Bethune@nfdc.gov.uk	Treasury Management Strategy 2024/25 Capital Strategy 2024/25

Kevin Green
Finance Manager
Deputy Section 151 Officer
Telephone: (023) 8028 5067
E-mail: Kevin.Green@nfdc.gov.uk

APPENDIX 1

Investment Strategy 2024/25

1.0 Introduction

The Authority invests its money for two broad purposes:

- because it has surplus cash, as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to invest in a sustainable and vibrant New Forest Economy, supporting employment and industry; investment income is also earned (known as **property investments**).

This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018, and predominately focuses on the second of these categories.

2.0 Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments fluctuates and in the past 12 months the Council's investment balance has ranged between £28.9m and £76.5m.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document; the Treasury Management Strategy.

3.0 Property Investments

Contribution: The Council invests in commercial and residential property with the intention of supporting the New Forest economy and community and returning a net income that will be spent on local public services. The Council has established a £50m fund for the purposes of investment in commercial property, inside or within areas immediately adjacent to, the District boundary, and a £10m fund exists for investment in residential property, inside or within areas immediately adjacent to the District boundary. Both funds have been established to support the local New Forest economy and community and both also generate an income return.

The Council can own commercial property directly and has established a wholly owned group of companies for the purposes of investment in residential property. The Council intends to make equity investments into the group of companies and issue loans, on the latter of which the Council will receive interest payments. Both strategies have socio-economic benefits, such as stimulation of local economies through investment in commercial premises and growth in the supply of housing throughout the District.

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Three out of the fourteen investment properties owned by this Council as at 31/03/23 have been in the Council's ownership for well over a decade. The first acquisition under the Council Commercial Property Investment Strategy was completed in December 2017, and acquisitions and developments have continued into 2023/24.

The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans in £millions

Category of borrower	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	3.713	0.000	3.713	8.000
TOTAL	**3.713**	**0.000**	**3.713**	**8.000**

Table 2: Shares in £millions

Category of company	31.3.2023 actual			2024/25
	Amounts invested	Gains or (losses)	Value in accounts	Approved Limit
Subsidiaries	1.388	(0.021)	1.367	4.000
TOTAL	**1.388**	**(0.021)**	**1.367**	**4.000**

The figures as included in tables 1 and 2 above are in relation to the wholly owned group of housing companies. The total initial investment made up of debt and equity is to total £10m. The mix of debt and equity will be fluid, and so for the purposes of setting individual limits, the potential maximum in each instance has been shown hence equating to more than £10m.

Table 3: Commercial Property held generating income in £millions

Property	31.3.22	31.3.2023 actual			2023/24
	Value in Accounts	Gains or (losses)	Additions or (Disposals)	Value in accounts	Additions to date
Hythe Marina	2.535	0.018		2.553	
Hardley Industrial Estate	5.600	(0.512)		5.088	
New Forest Enterprise Centre	1.083	0.006		1.089	
New Milton Health Centre	2.543			2.543	
Platinum Jubliee Business Park	4.538		5.014	9.552	0.250
Ampress Car Park	2.143	(0.113)		2.030	
The Parade, Salisbury Road Totton	1.604	(0.005)		1.599	
Queensway, New Milton	1.069	(0.057)		1.012	
Unit 1 Nova Business Park, New Milton	0.539	0.021		0.560	
Starbucks	1.261	0.121		1.382	
27 Salisbury Road	1.903	(0.002)		1.901	
Marks & Spencer New Milton		(0.100)	5.100	5.000	
Rumbridge Street, Totton		(0.027)	0.235	0.208	
Unit 800 Ampress Park		(0.067)	1.971	1.904	
TOTAL	**24.818**	**(0.717)**	**12.320**	**36.421**	**0.250**

Note: The table above includes material properties denoted in the accounts as Other Land & Buildings (not used operationally by the Council) and Investment Properties, to reflect different statutory accounting definitions of these assets which all have a wider socio-economic purpose.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments. Market research is undertaken regularly, and potential opportunities objectively evaluated by the in-house estates team, utilising external expertise as and when necessary.

The Authority assesses the risk of loss in its residential holdings before entering into and whilst holding loans through regular communication via the board of directors and the Council. The board has the freedom to engage with specialist consultants as and when required.

Purchases of properties and development opportunities are only completed once a full business case has been prepared and signed off by the investment panel, or board, or by the Council if above delegated financial parameters.

Liquidity: Compared with other investment types, property can be relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council will ensure to keep suitable minimum cash balances available, for example to repay capital borrowed.

4.0 Proportionality

The Council is expecting investment activity to assist in achieving a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected net profit from investments, excluding financing costs, over the lifecycle of the Medium -Term Financial Plan. Should it fail to achieve the expected net profit, the Council will continually review and evaluate its services, and their delivery models, ensuring the most efficient service is provided to the residents of the New Forest. Prudent use of reserves can also be considered as a suitable contingency plan for continuing to provide these services in the short term.

Table 4: Proportionality of non-treasury Investments (£millions)

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Gross service expenditure	42.000	43.000	46.000	46.000	46.000
Investment income	1.496	1.829	2.236	2.268	2.268
Proportion	3.6%	4.3%	4.9%	4.9%	4.9%

5.0 Capacity, Skills and Culture

Elected members and statutory officers: Commercial Property investments are made pursuant to the Asset Investment Strategy approved by the Council in 2017, and refresh approved by the Council in 2022. An experienced team formed from the Council's finance, estates and valuation and legal departments prepare initial assessments and recommendations concerning suitable properties. Prior to entry into a bidding process, approval must be secured from the Portfolio Holder: Finance & Corporate Services, the Monitoring Officer and the section 151 Officer. Prior to entry into binding legal agreements, final approval must be secured from the Chief Executive, the Monitoring Officer and the section 151 Officer in consultation with the Portfolio Holder: Finance & Corporate Services and the Chairman of the Resources and Transformation Overview and Scrutiny Panel for transactions up to £5m, and the approval of Cabinet for transactions above £5m. This detailed and clear process of scrutiny and decision making by key senior officers and members ensures the strategic objectives, risk profiles and overall risk exposure for the Council are considered and fully understood.

Commercial deals: The Cabinet report dated 20th February 2017 is clear (at para 3.8) that the Council will take a prudent approach to the management of financial risk and the assessment of possible investments. The criteria for selecting investment assets set out in the Asset Investment Strategy and the steps for selecting assets set out above accord with prudent investment principles and the key decision makers, including the section 151 Officer, are involved in the process to ensure compliance.

Corporate governance: The Asset Investment Strategy makes express reference (at para 2.1) to the Council's Corporate Plan 2016 – 2020 and was prepared in the context of seeking to deliver on those priorities. The objectives remain valid in the 2022 refresh and in the context of the updated Community Matters Corporate Plan 2020 – 2024. The process for selecting assets is set out above to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

6.0 Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure, as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Budget	31.03.2026 Budget	31.03.2027 Budget
Pooled Fund T M investments	13.60	9.00	9.00	9.00	9.00
Other T M investments	17.90	1.00	1.00	1.00	1.00
Subsidiary investments: Loans	3.71	3.71	3.71	3.71	3.71
Subsidiary investments: Shares	1.36	1.36	1.36	1.36	1.36
Commercial investments: Property	36.42	36.67	36.67	36.67	36.67
TOTAL INVESTMENTS	**73.00**	**51.75**	**51.75**	**51.75**	**51.75**
Commitments to lend		-	-	-	-
Guarantees issued on loans		-	-	-	-
TOTAL EXPOSURE	**73.00**	**51.75**	**51.75**	**51.75**	**51.75**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments can be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

All investments made to date are funded through internal borrowing. It is anticipated that external borrowing will be required to part fund the programme from 2024/25 onwards, once new investment is reintroduced (currently paused as a result of the high interest rate environment).

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Budget	31.03.2026 Budget	31.03.2027 Budget
Subsidiary investments: Loans	3.71	3.71	3.71	3.71	3.71
Commercial investments: Property	22.11	22.31	22.31	22.31	22.31
TOTAL FUNDED BY BORROWING	**25.82**	**26.02**	**26.02**	**26.02**	**26.02**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of external borrowing where appropriate, as a proportion of the sum initially invested.

Table 7: Investment rate of return (net of costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Treasury management investments	1.03%	2.92%	3.50%	3.50%	3.50%
Subsidiary investments: Weighted Average	3.22%	3.82%	3.82%	3.82%	3.82%
Commercial investments: Property	3.66%	4.46%	5.56%	5.64%	5.65%

Notes to table 7: As cash balances reduce, the overall TM investment earnings in £000's will reduce. However, the funds that are held by the Council will represent required minimum balances and will continue to be placed within medium-longer term strategic funds, which are typically higher yielding.

The general increase in the rate of return for Commercial Property is due to the commencement of expected rental income, principally at the Platinum Jubilee Business Park, for which capital expenditure was previously incurred in advance of rental income being received. As already outlined, the authority does not associate direct borrowing with individual assets. Borrowing will be incurred in the overall context of the Capital Financing Requirement and cash balances.

AUDIT COMMITTEE – 26 JANUARY 2024

STRATEGIC RISK REGISTER UPDATE

1. RECOMMENDATIONS

1.1 That Audit Committee are asked to review the Strategic Risk Register as part of the 6 monthly review process (before onward review by Cabinet in March).

2. INTRODUCTION AND PURPOSE

2.1 The Strategic Risk Register (Appendix 1), now included within this report contains the significant cross cutting risks, as identified by senior and executive council officers in consultation with the Portfolio Holders, in the Council achieving the priorities set out in the 'Community Matters Corporate Plan 2020-24'.

3. BACKGROUND

3.1 The objective of risk management is to recognize potential risks that could hinder the Council in reaching its objectives. It is intended to assess, devise, and put into action reliable strategies to diminish the probability and potential consequences of these risks materialising.

3.2 The council is legally obligated to establish protocols for handling risks according to the Accounts and Audit Regulations. This entails implementing effective internal controls that support the efficient functioning of the council and includes procedures for risk management. Accordingly, this holds great importance in the council's Local Code of Practice for Corporate Governance and is a key aspect of assurance highlighted in the Annual Governance Statement, relying heavily on a strong risk management framework.

4. STRATEGIC RISK REGISTER

4.1 The Strategic Risk Register (Appendix 1) captures the most significant cross cutting risks to the delivery of the current Corporate Plan and the proposed actions to mitigate these risks.

4.2 The attached Appendix 1 presents the progress report for the actions required, with the blue narrative providing an overview of the current status for each item. It is important to note that the strategic risk register operates on a 6-month cycle. In June, the entire register is reviewed to assess the relevance of each cross-cutting risk and identifying any new cross-cutting risks that need to be added, ensuring that risk scores accurately reflect the current situation, and review the status of risk control and any required actions. Then, in January, an update is provided on the progress of the required actions.

4.3 These risks have been identified with senior and executive council officers working alongside the Portfolio Holders to ensure a joined-up approach in capturing and documenting these risks.

4.4 The register includes the same 8 Strategic Risks as included on the previously reviewed version of the register. The updated register at appendix 1 provides progress update narrative on the actions required to further manage residual risk, noting that some of the actions are continual, whereas others are finite.

5. FINANCIAL IMPLICATIONS

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

6. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

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

7. DATA PROTECTION IMPLICATIONS

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

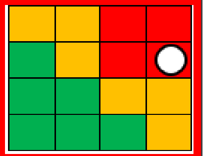
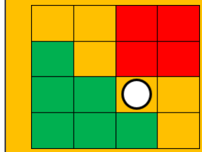
For further information
James Clarke
Insurance and Risk Officer
Tel: 023 8028 5002
Email: James.Clarke@nfdc.gov.uk

DELIVERING FOR OUR COMMUNITIES

Strategic Risk Register 2020 - 2024 • January 2024

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 driven (in part) by a high utility price, and the knock-on implication this is having to the cost of food, whilst in the context of a sustained inflated fuel price. 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. 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. Targeted funding streams and support for voluntary and community sectors. B. Engagement in discussions of fundamental activities such as Solent Freeport and County Deals. C. Close working partnerships with key stakeholders such as the Community Safety Partnership and the Skills Advisory Group. D. Effectively review and apply the Council's Local Plan, including active monitoring of the implementation, while proactively working with developers to provide enabling infrastructure and continuously reviewing the Local Plan. E. Roll-out Digital Strategy prioritising customer needs. F. Corporate Plan 2020-2024 and the development of the next Corporate Plan in 2023. G. Collaborative working with key partners through the Cost of Living Steering Group to implement a Poverty Action Plan. H. Establishment of a referral system to aid vulnerable residents. I. Regular engagement with the voluntary sector J. Participation on the board and its sub-committees of Solent Freeport Consortium Limited, ensuring collaborative working and shared goal achievement to advance the economic, social and environmental well-being of the District. K. The Council's Housing Revenue Account is actively seeking opportunities to bring forward additional affordable homes within the District, under Council ownership.	Likelihood 2 x Impact 3 = Medium 6 	A. Allocate resource to support Corporate Plan priorities. Progress update: Alignment of resource to priorities to take effect after finalisation of 24-28 corporate plan. B. Continue to work in partnership for example with the Solent Freeport and with other public sector partners to explore new and existing opportunities to deliver to residents and businesses. Progress update: Having agreed New Forest priorities for delivery through the Solent Freeport with the Future New Forest Growth Board and Waterside Steering group build into a delivery plan for Cabinet approval. C. Understanding the results from the resident survey and taking stock of these learning points to ensure they feed into the Corporate Plan 2025-2028. Progress update: Subject to consultation and final approval in April 2024, deliver actions arising from new Corporate Plan objectives, under the People priority of Helping those in our community with the greatest need. D. Continued support to the Cost of Living Steering Group is provided, bringing a multi-agency approach to tackling issues affecting the most vulnerable in the community, working alongside the Local Partnership Campaign Manager to explore and promote further support to household. Progress update: Council Wide Cost of Living group who have an Action Plan which is reviewed and updated.

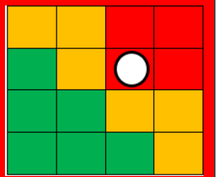
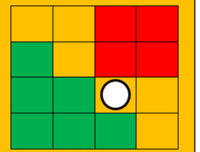
214

				E. Continuing to explore all housing enabling avenues across planning and housing. Progress update: The push to increase affordable housing availability spearheaded by the Council and Housing Associations is making progress, despite facing a challenging environment (lack of strategic sites coming forward, construction costs and interest rates both increased). By the end of FY23/24, it is anticipated that the Council will have successfully overseen the completion of 340 new Council homes and is on track to add 115 more. Within planning, efforts are focused on enforcing Local Plan policies and accelerating development with necessary infrastructure as stipulated by the plan. Collaboration continues with the New Forest National Park Authority to ensure appropriate development within the National Park that aligns with its own Local Plan. An NFDC local plan review is planned to commence early in FY24/25 to update development criteria.

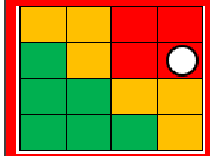
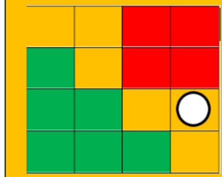
Strategic Risk Register 2020 - 2024 • January 2024

New Forest DISTRICT COUNCIL

2. Achieving future financial resilience

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 3 = High 9 	The Council's Medium Term Financial Plan is affected by numerous external economic factors, such as the high bank base rate and the current rate of inflation (cost of living). These factors place significant pressure on expenditure and impact the ability to generate income, noting the longer-term implications of recovering from economic challenges. 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. Given financial constrains affecting the Local Government sector as a whole, Local Authority Partners, may look to the District Council to support their own respective financial sustainability over the Medium term.	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. Currently in the process of creating a Transformation Strategy that contains ample measures to support the successful implementation of the plan. This strategy encompasses numerous actions that will aid effective delivery of the transformation plan. 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 County Council, 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 Progress update: Medium Term Financial Plan updated accordingly. B. Maintain momentum and presence within the delivery of the Solent Freeport. Progress update: NFDC presence maintained on board and committees. C. Development of the Transformation Programme to deliver enhanced services and financial efficiencies to support the delivery of the Medium Term Financial Plan. Progress update: Implementation of the transformation strategy to deliver enhanced services and financial efficiencies to support the delivery of the Medium Term Financial Plan. D. Keep up discussions with upper and lower tier authority partners to ensure effective and efficient service delivery to residents. Progress update: Respond as appropriate to Hampshire County Council budget consultations and service reviews, representing the needs of New Forest residents, and continue the work to ensure efficiency re delivery and consistency with third party charging.

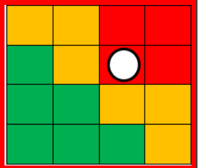
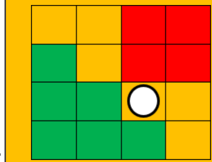
3. Ensuring efficient and effective internal control, governance and compliance

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 Regulations - 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 - Timeliness of External Audit completion We continue to follow best practise in terms of documenting our Annual Code of Corporate Governance review, and preparation of an Annual Governance Statement, both with actions plans.	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 i.e., Section 151 Officer, Monitoring Officer, Data Protection Officer, H&S, Facilities Lead etc. J. Compliance with information governance including the UK General Data Protection Regulation and Data Protection Act 2018. K. Review and update of Business Continuity Plans. L. Housing and Facilities 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 schedules for all services. Progress update: The corporate retention and destruction schedule has now been completed and was approved by Executive Management Team on 11 July 2023. Work continues to review and improve all areas of information governance compliance. B. Management to undertake actions from the internal audit reports. Progress update: Regular updates with Chief Internal Auditor and outstanding actions followed up on. C. Ongoing engagement with external audit. Progress update: Ongoing through regular meetings and liaison in-between. D. Continue to assess the effectiveness of the new Project Management framework for projects to ensure appropriate Governance arrangements are in place for all projects. Progress update: We're currently exploring a virtual project management office as part of the transformation programme arrangements to ensure consistency in the management, governance and monitoring of projects using standardised templates and a central point for the provision of advice.

				E. Financial Management Code – complete outstanding actions identified through the initial assessment. Progress update: Mandatory financial training was provided to all members as part of the induction programme. New performance framework will be developed after finalisation of the new corporate plan, this will take effect during 2024. F. Enhance member and officer development by offering continuous training, development and engagement opportunities. Progress update: Initial Member Induction and Training nearing end, resources on Sharepoint for later use. Equality, Diversity, Inclusion training by LGA in early 2024. Ongoing promotion of LGA Leadership and Councillor resources, with thematic months. Feedback being collected to improve future training. Regular Member Briefings update on key priorities before decision-making meetings. G. Continue to ensure high levels of statutory compliance standards across services. Progress update: Half-yearly update on information governance and Housing and Facilities compliance reports presented to Executive Management Team during October and November 2023 respectively.

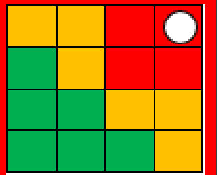
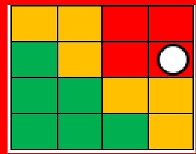
Strategic Risk Register 2020 - 2024 • January 2024

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 Leadership review has concluded and the Council now has a settled top tier leadership structure. There is however a risk around the time required to achieve organisational/cultural change. The pandemic demonstrated the Council's ability to adapt to changing circumstances swiftly and ensure prioritised operations continued. Accordingly, it is crucial that we continue this momentum and uphold the positive experiences and benefits that have emerged from recent changes. Moreover, steps must be taken to address and improve upon any negative experiences and challenges encountered in service delivery, thereby ensuring a more efficient and satisfactory experience for all involved. There are still some actions to complete as a result of the staff survey completed during 2022.	A. Employee Forum to encourage collaboration and engender a culture that enables change and innovation. B. Learning and development programme to be developed and rolled out to provide 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. Transformation framework in progress. G. Communications plan (internal) allowing for regular staff engagement/progress updates. H. Staff/union engagement. I. Project management/capability. J. Performance management and key performance indicators in place. K. Staff/officer wellbeing and support. L. Development of Workforce Strategy and enabling an agile workforce. M. Corporate plan 2020-2024. N. Hybrid working increasing potential pool of staff. O. More support and training on virtual working/managing staff. P. Further ICT training to ensure maximum return on investment.	Likelihood 2 x Impact 3 = Medium 6 	A. Embedding of new Council Leadership structure (including necessary backfill). Progress update: Focus on securing the capacity within the wider leadership team in light of staff changes, and the successful implementation of the leadership development programme including 360 degree appraisal and coaching. B. Progress learnings from employee survey. Progress update: Working group was set up and findings have been shared with all staff and posted on ForestNet. C. HR developing plans to work with third parties to deliver a consistent and structured approach to training and development. Progress update: New Learning Management system has been procured and is currently being implemented. D. Keep abreast of developments in pay award negotiations and be ready to respond accordingly. Progress update: Pay awards for 2023 have now been agreed and have been implemented (including back pay) in November.

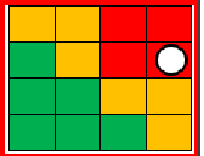
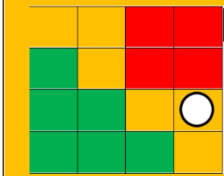
				E. Transformation plan being formulated to include design principles for a new operating model, approach, implementation, and necessary resources. A key aspect of the design principles will be our people strategy and organisational development opportunities. A Transformation Strategy will be presented to the new administration in 2023. Progress update: A key theme of the transformation strategy is how we organise and develop our people and culture, making sure roles, structures, behaviours and skills evolve to meet new service designs and needs. A priority action will be the delivery of a People Strategy during 2024. F. Continue to identify further opportunities that should be progressed in connection with improving service delivery. Progress update: Implement transformation strategy to identify further opportunities that should be progressed in connection with improving service delivery. G. Allocate resource to support Corporate Plan ambitions. Progress update: The update for this is aligned with 1A. ~~H. Continue to work in partnership with other public sector partners to explore new and existing opportunities to deliver to residents and businesses.~~ Progress update: Risk owner has requested for this to be deleted as not specific.

5. Ensuring robust security measures to protect the Council's digital data and ICT 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 3 x Impact 4 = High 12 	A. Continued development of O365 services to improve email and anti-virus protections. Progress update: Microsoft E5 licenses provide email protection using multiple threat protection policies including Anti-Phishing, Anti-Spam, Anti-Malware, Safe Attachments, Safe Links and a global allow / block list. Data Loss Prevention (DLP) policies are being introduced in partnership between Information Communication Technology and Information Governance department for emails. Microsoft Defender technology is in the process of being tested for endpoint anti-virus protection. B. Carry out annual penetration test. Progress update: Information Communication Technology department conducts an annual Information Technology health check, which encompasses a complete penetration test. Any vulnerabilities discovered are ranked and addressed according to a plan based on their criticality. The most recent assessment occurred from 29/08/23 to 08/09/23, during which all critical and high vulnerabilities were either remedied or mitigated to lower associated risks.

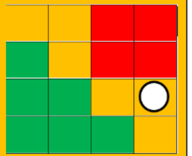
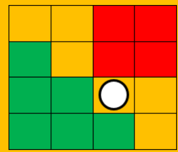
				C. Ongoing refresher training on cyber risks for all staff. Progress update: Our Information Communication technology security elearning training platform, uSecure periodically sends out security training to all users. This content is updated on a regular basis to ensure its current and contains new and existing threats/risks. A quarterly phishing campaign is also run to highlight the continued risk of these types of attacks. The Security Team monitors course participation regularly. D. To look at service provisions externally that can assist with cyber risks. Progress update: A Cyber Incident Response service has been put in place support the organisation in the event of any cyber breach. This service also includes proactive support where our partner conducts weekly vulnerability scans on all our internet exposed services. Highlighted vulnerabilities are resolved or mitigated. Other services include joining groups such as Southeast Government Warning Advisory and Reporting Point which is a forum that includes local government security teams where security intelligence is shared.

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 the required general election (by Jan 2025), as well as a new NFDC administration with an altered political balance all have the potential to have an 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 There is a possibility of experiencing a shift in the political landscape leading up to the general election.	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. The Executive should conduct horizon scanning to proactively anticipate and identify potential challenges and opportunities in order to influence outcomes through consultation. 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. Progress update: The new Learning Management System will make this easier for staff and managers to track. B. Ensuring professional training availability as this impacts departments e.g., Planning and Legal Progress update: Managers will be better equipped to track this with the new Learning Management System. C. Encouraging staff to undertake professional development and service-related training. Progress update: Training budgets for 2024/25 have been reset to allow consistency across all departments across the Council to ensure equal opportunity to all staff.

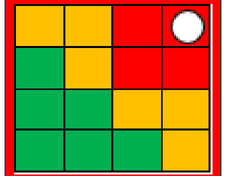
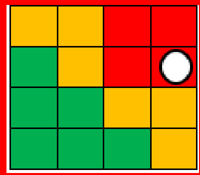
				D. Prepare and implement the national changes arising out of the new Social Housing Charter, which represents the biggest change in social housing for 40 years. Work has been ongoing for the last 2 years to prepare and implement the necessary changes including reporting to EMT, Housing & Homelessness Overview & Scrutiny Panel and Cabinet. Progress update: A new Tenant Engagement Strategy is due for approval by Cabinet in April 2024, and work to engage with tenants (through newly recruited positions) has already delivered a new digital engagement platform. Performance monitoring against the new regulatory regime's 22 Tenant Satisfaction Measures is well underway with a 6 month progress report presented to EMT in October 2023. Other work is ongoing to prepare for the forthcoming consumer standards and positive improvements to neighbourhoods.

7. Delivering Council Services through adverse environmental 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 related to pollution - Coastal Erosion - Industrial Strikes The Council has appointed a dedicated resource to lead on Emergency Planning and Business Continuity.	A. Business Continuity framework and individual service continuity plans. B. Threat response plans which will include ICT Infrastructure response, alternative accommodation provisions and reallocation of staff. C. Emergency Planning Strategy and defined roles assigned. D. 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. Robust training continues to be arranged and carried out for officers involved in emergency planning. Work continues in ensuring business continuity plans are in place, including for interruptions due to energy outages. Progress update: Training matrix in place for officers with emergency planning roles. Training courses and exercises undertaken and further planned for near future. Plans ae in place with services for energy outages. B. Review and challenge of functional Service Continuity Plan and conclude Business Continuity Planning. Progress update: Action plan highlighting requirements to review these plans going to Executive Management Team in December 2023 C. Regular reporting to EMT on progress against Emergency Planning and Business Continuity action plan. Progress update: Executive Management Report in June and Dec 2023 with circulated email update on Oct 23

				D. Continuity to increase capacity for service to manage this risk. Progress update: To be reviewed. E. Set up links to Town and Parish councils as they would be involved in implementing actions through adverse conditions. Progress update: The Community Forum has established connections and is preparing for its next meeting in March, where the focus will be on discussing community resilience. A new initiative is underway to update plan templates in order to assess community skills and assets for improved preparedness. This progress will be closely monitored and integrated into the collaboration with the Local Resilience Forum and Verdatus.

8. Responding to the Climate and Nature Emergency

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 4 x Impact 4 = High 16 	NFDC declared a Climate Change and Nature Emergency in 2021 in response to global temperature rise and the associated impacts on natural and built environments. Declaring an emergency demonstrates NFDC's commitment to the legally binding target set by Central Government for the UK to reach net zero carbon by 2050, however progress in achieving the agreed targets is significantly off track at national and global levels. As a result of climate change, the New Forest area is expected to experience: • Hot drier summers and warmer winters • More frequent and extreme heatwaves, droughts flooding and coastal erosion Failing to reduce emissions, improve environmental quality and adequately adapt to climate change will have impacts for NFDC residents, tenants, businesses, visitors, and the economy. Responding at a pace and scale comparable to the declared emergency will ensure that the environmental, social, financial and reputational risks to NFDC are minimised, and any opportunities arising from the changing climate are maximised. National and local actions are key to achieving environmental goals, which include grid decarbonisation, policy planning, and enabling a green economy. However, funding these initiatives is challenging and could affect residents' costs of living.	A. Deliver organisational and area-wide actions to reduce emissions, adapt to climate change and safeguard the natural environment, as outlined in the Climate Change and Nature Emergency Action Plan. B. Deliver, monitor and report on four key programmes of work: carbon reduction, climate adaptation, nature recovery and programme management. C. Governance and oversight from Climate and Nature Steering Group and Environment Overview and Scrutiny Panel. D. Climate Change and Nature Emergency Annual Report to inspire behaviour change, demonstrate corporate leadership and ensure transparency, accountability, and governance - detailing action to date, progress against targets and future actions. E. Service risk assessments and business continuity plans to be developed. F. Consideration of climate change and sustainability issues in the early stages of all activities, including projects, plans, strategies, and procurements. G. Prioritisation of climate change and sustainability in the Corporate Plan, Local Plan and other key strategies. H. Ensuring adequate resources for climate and sustainability efforts including third party financial support.	Likelihood 3 x Impact 4 = High 12 	A. Successful delivery of projects within the organisational and area-wide Climate Change and Nature Emergency Action Plan. Progress update: Delivery of projects is on track. Action Plan will be reviewed for 2024/25. B. Climate and Sustainability to be identified as key priorities in the new Corporate Plan, Local Plan and other key strategies e.g., Greener Housing Strategy Progress update: New Corporate plan is in process of being drafted with climate and sustainability embedded within it. C. Development of policy framework to ensure business as usual activities of NFDC services contribute positively to climate and sustainability objectives. Progress update: Policy development is underway. D. Creation of a 5-year strategy and action plan with aligned resources and targets. Progress update: The Climate Change and Nature Emergency Strategy will cover the period 2024-2028 to align with the new Corporate Plan. Resources requirements and targets will be aligned to the resulting action plans.

				E. Inclusion of climate change risks in service level risk assessments and business continuity plans. Progress update: Ongoing process and review. F. Training for officers and members, particularly O&S panel members, on climate change, nature and sustainability issues. Progress update: Initial training for officers and members took place in 2023. Further training is scheduled for early 2024. G. Aligning level of resourcing to meet emerging corporate priorities. Progress update: To be determined alongside adoption of new corporate plan.

This page is intentionally left blank

AUDIT COMMITTEE – 26 JANUARY 2024

THE REGULATION OF INVESTIGATORY POWERS ACT 2000

1. RECOMMENDATION

It is recommended that: -

Members note the use made by the Council of its powers under RIPA.

2. INTRODUCTION

2.1 The purpose of this report is to provide the Audit Committee with a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

2.2 RIPA provides a statutory framework whereby certain surveillance and information gathering activities can be authorised and conducted by the Council in a lawful manner where they are carried out for the prevention and detection of crime and, in some cases, for the prevention of disorder.

2.3 The Council has two policies ('the policies') relating to its use of RIPA:

2.3.1 Surveillance Policy – updated February 2022 (**which members can find here: http://forestnet/article/2238/Surveillance**)

2.3.2 Policy for the Acquisition of Communications Data – updated January 2019 (**which members can find here: POLICY FOR THE ACQUISITION OF COMMUNICATIONS DATA**)

2.4 The Legal Services Manager is required to report to the Audit Committee annually on the Council's use of RIPA.

3. BACKGROUND

3.1 When the Human Rights Act 1998 came into force in 2000 it made the fundamental rights and freedoms contained in the European Convention on Human Rights (ECHR) enforceable in the UK.

3.2 Article 8 of the ECHR provides that individuals have the right to respect for private and family life and Article 6 of the ECHR provides that individuals have the right to a fair trial.

3.3 The use of covert surveillance techniques is considered to be an interference with this Article 8 right and therefore RIPA provides a framework to render lawful surveillance activities which might otherwise be in breach of the ECHR. It is also aimed at ensuring that evidence obtained against a person to be used in criminal proceedings is obtained in a fair manner.

3.4 RIPA regulates three surveillance techniques available to local authorities, namely:

3.4.1 Directed surveillance - covert surveillance which is carried out as part of a specific investigation and is likely to involve the obtaining of private information about the person under investigation.

3.4.2 Covert Human Intelligence Sources (CHIS) – use of a person who establishes and maintains a relationship with the person under investigation to obtain and disclose information; and

3.4.3 The acquisition and disclosure of communications data - obtaining information from communication service providers (e.g., the postal service, telephone companies and internet companies) about the use made of a service (e.g., itemised billing, internet connections or records of registered post) and user information (e.g., subscriber names, addresses or other customer information).

3.5 RIPA provides that the above activities may be authorised by local authorities but must be necessary and proportionate and subject to specific procedural requirements including making an application to approve the authorisation to the Magistrates' Court.

4. THE COUNCIL'S USE OF RIPA

4.1 The Council rarely uses its powers under RIPA.

4.2 The Council has not authorised any surveillance activities under RIPA since the last report to the Audit Committee in January 2023.

5. TRAINING

5.1 In accordance with the policies further training will take place in 2024. However, where a RIPA investigation is contemplated, the relevant officers are required to contact Legal Services in advance so that specific advice can be provided relevant to that case.

6. INVESTIGATORY POWERS COMMISSIONER INSPECTION

6.1 The Investigatory Powers Commissioner's Office (IPCO) provides independent oversight of the use of investigatory powers by public authorities and the Council was most recently subject to a remote assessment in 2022.

7. ENVIRONMENTAL IMPLICATIONS

7.1 There are no environmental implications arising from this report.

8. CRIME AND DISORDER IMPLICATIONS

8.1 The Council's use of RIPA relates to the prevention and detection of crime and, in some cases, the prevention of disorder. It is essential the Council complies with RIPA if covert surveillance techniques are used to prevent legal challenge and ensure that evidence obtained is admissible in criminal proceedings. As stated above, the Council rarely uses its powers under RIPA.

9. CONCLUSION

9.1 RIPA provides the Council with a statutory framework to follow so that it may carry out various covert investigatory activities in a lawful manner.

9.2 The Council uses its powers under RIPA infrequently, but when use is made of such powers it is essential that this is done in accordance with the law and the Council's policies.

Further Information

Tanya Coulter
Legal Services Manager
Telephone: 023 8028 5532
Email: tanya.coulter@nfdc.gov.uk

Background Papers

Published documents

This page is intentionally left blank

AUDIT COMMITTEE
WORK PROGRAMME 2024/2025

ITEM	METHOD	LEAD OFFICER
22 MARCH 2024		
External Audit Value for Money Report 22/23	Written Report	Kevin Suter / James Stuttaford (External Audit)
External Audit Plan 23/24	Written Report	Janet Dawson / Katie Lean (External Audit)
Final Annual Governance Statement 22/23	Written Report	Alan Bethune
Final Annual Financial Report 22/23	Written Report	Alan Bethune
Internal Audit Progress Report 23/24	Written Report	Antony Harvey (Internal Audit)
Internal Audit Charter 24/25	Written Report	Antony Harvey (Internal Audit)
Internal Audit Plan 24/25	Written Report	Antony Harvey (Internal Audit)
Review of Financial Regulations	Written Report	Alan Bethune
PCI DSS Update	Written Report	Naomi Baxter

ITEM	METHOD	LEAD OFFICER
31 MAY 2024		
Treasury Management Out Turn Report 23/24	Written Report	Gemma Farley (HCC)
Draft Annual Financial Report 23/24	Written Report	Alan Bethune
Draft Annual Governance Statement 23/24	Written Report	Alan Bethune
Bad Debt Write Offs 23/24	Written Report	Ryan Stevens
Annual Fraud Report 23/24	Written Report	Ryan Stevens
Internal Audit Opinion Report 23/24	Written Report	Antony Harvey
Code of Good Governance Review 23/24	Written Report	Alan Bethune
JULY 2024		
Treasury Management Update	Written Report	Gemma Farley (HCC)
Strategic Risk Register Update	Written Report	James Clarke
OCTOBER 2024		
Internal Audit Progress Report 24/25	Written Report	Antony Harvey (Internal Audit)
Treasury Management Update	Written Report	Gemma Farley (HCC)
External Audit Results Report 23/24	Written Report	Janet Dawson Katie Lean (External Audit)

ITEM	METHOD	LEAD OFFICER
JANUARY 2025		
Internal Audit Progress Report 24/25	Written Report	Antony Harvey (Internal Audit)
Treasury Management Strategy 25/26 (Including Prudential Indicators)	Written Report	Gemma Farley (HCC)
Strategic Risk Register Update	Written Report	James Clarke
MARCH 2025		
External Audit Plan 24/25	Written Report	Janet Dawson / Katie Lean (External Audit)
Internal Audit Progress Report 2024/25	Written Report	Antony Harvey (Internal Audit)
Internal Audit Charter 2025-26	Written Report	Antony Harvey (Internal Audit)
Internal Audit Plan 2025-26	Written Report	Antony Harvey (Internal Audit)
Treasury Management Update	Written Report	Gemma Farley (HCC)

Created 20.10.23

This page is intentionally left blank