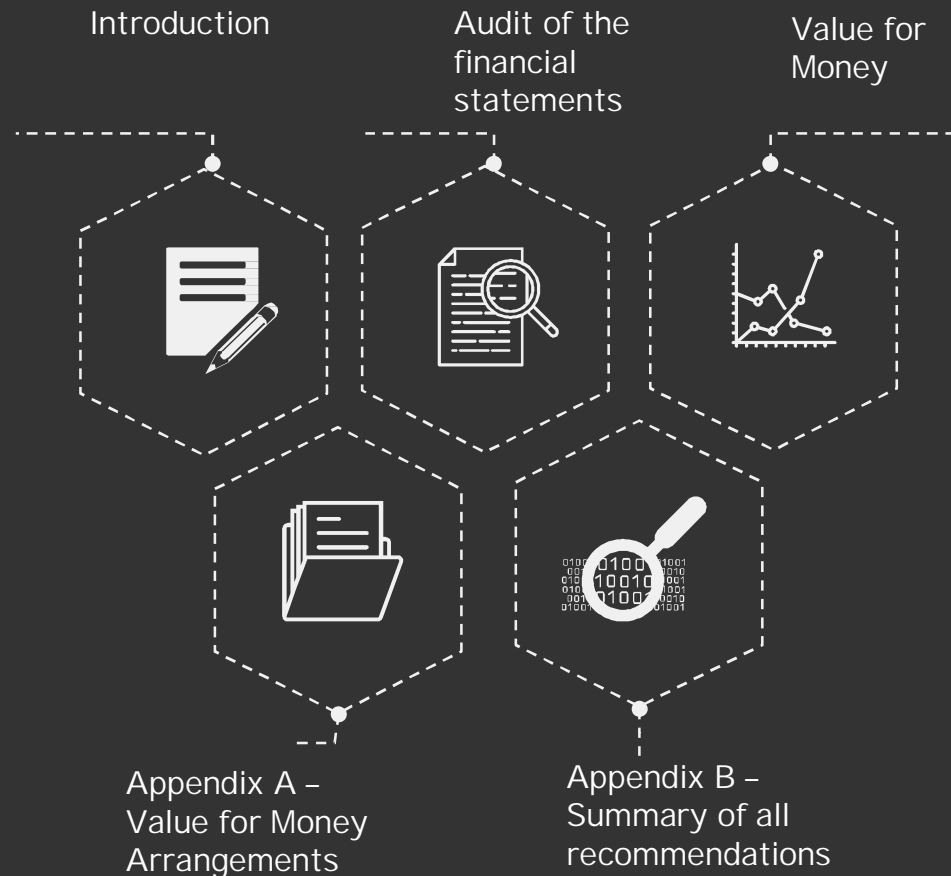


The background image shows a modern, multi-story building with a glass facade. The interior is visible through the glass, showing a bright, open-plan space with a polished floor that reflects the ceiling lights. The ceiling has recessed lighting fixtures. The glass panels are held together by dark metal frames. The overall atmosphere is clean, professional, and contemporary.

# 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.psa.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.

Misstaterments 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)	<p>Property, Plant and Equipment land and buildings (L&amp;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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"><li>• Income used by Valuer higher than that recalculated by EY in relation to Clock income</li></ul> <p>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:</p> <ul style="list-style-type: none"><li>- Judgemental difference £263k overstatement of car park (CP-13)</li><li>- Projected difference £479k overstatement of car parks</li></ul>
Valuation of Land and Buildings (DRC)	<p>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.</p> <p>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.</p>
Valuation of Council Dwellings	<p>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.</p> <p>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.</p>



# 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.

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 its 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



## 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 through 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



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## Appendix A – Summary of arrangements

### Financial Sustainability

#### Reporting Sub-Criteria

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

#### Findings

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 through 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)	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"><li>• implementation of the commercial and residential property strategies to bring valuable new sources of additional income,</li><li>• focus on delivery and transformation activities,</li><li>• maximising its revenues through local taxation; and</li><li>• prudent use of budget equalisation reserves</li></ul> <p>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.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>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.</p> <p>There is an action plan and achievement measures section, which is annually updated.</p> <p>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.</p>

## Appendix A – Summary of arrangements (continued)

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### 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	<p>Also see the commentary above.</p> <p>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.</p> <p>Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>See commentary above and links to related evidence.</p> <p>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.</p> <p>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.</p>

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## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

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

#### Findings

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)	<p>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 &amp; Corporate Services to any problems.</p> <p>The Council's financial performance (revenue and capital) are formally reported quarterly through a Financial Monitor, through to the outturn report at year-end.</p> <p>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.</p> <p>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 &amp; budget monitoring were all 'Substantial Assurance'.</p> <p>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.</p>
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	<p>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.</p> <p>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 &amp; 2023.</p> <p>There is a monthly Cabinet meeting, to ensure leadership is regularly updated on NFDC's position.</p> <p>(continued...)</p>

## Appendix A – Summary of arrangements (continued)

### Governance (continued)

Reporting Sub-Criteria	Findings
<p>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)</p>	<p>There are established Overview and Scrutiny Panels and the Audit Committee is the body formally charged with governance at the Council.</p> <p>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.</p> <p>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.</p>
<p>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)</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>(continued...)</p>



## Appendix A – Summary of arrangements (continued)

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### Governance (continued)

#### Reporting Sub-Criteria

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)

#### Findings

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	<p>As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report.</p> <p>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.</p> <p>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.</p>
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	<p>The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.</p> <p>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.</p> <p>The annual financial statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.</p> <p>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.</p> <p>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.</p> <p>(continued...)</p>

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness (continued)

#### Reporting Sub-Criteria

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)

#### Findings

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)

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### 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	<p data-bbox="685 368 2101 528">New Forest District Council purchases goods and services from a variety of suppliers. Details of procurements are documented at <a href="http://www.newforest.gov.uk/article/942/Supplying-the-council">www.newforest.gov.uk/article/942/Supplying-the-council</a>, 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 <a href="http://www.newforest.gov.uk/standardtermsandconditions">www.newforest.gov.uk/standardtermsandconditions</a></p> <p data-bbox="685 560 2107 624">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.</p> <p data-bbox="685 655 2107 815">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.</p> <p data-bbox="685 847 2136 943">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 (<a href="http://newforest.gov.uk">newforest.gov.uk</a>)</p> <p data-bbox="685 975 2145 1038">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.</p>

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## 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
<p>Financial statements: Related Party Transactions</p> <p>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.</p>	<p>Annual submissions are completed in all cases.</p> <p>Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.</p>	<p>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.</p>
<p>Financial Statements: Preparation</p> <p>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 in March 2023 for their consideration in 22/23 accounts preparation.</p>	<p>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</p>	<p>Updates to the accounts have been made for 2022/23 accounts onwards</p>

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