



New Forest District  
Council

Value for Money report

Year ended 31 March 2023

March 2024



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

11<sup>th</sup> March 2024

Dear Audit Committee Members  
2022/23 Value for Money Report

We are pleased to attach our interim Value for Money report for New Forest District Council. The report summarises the findings from our 2022/23 value for money work. The report sets out the risks identified and the findings from our detailed assessment including a commentary on the three reporting criteria and a summary of the arrangements in place.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 22<sup>nd</sup> March 2024.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

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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 Members and management of New Forest District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Audit Committee Members 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 Audit Committee Members and management of New Forest District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





# 01 Executive Summary



# Executive Summary

## Purpose


The purpose of the report is to set out the Value for Money (VFM) work undertaken up to and including the 2022/23 financial year. The report 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.

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).

The report sets out the following areas which have been assessed up to the point of issuing this interim report to the Audit Committee:

- Risks of significant weakness and procedures planned to mitigate these
- Findings of our work against the three value for money reporting criteria and the sub-criteria
- Summary of arrangements in place over the period covered by this report.

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



# Executive Summary (continued)

## Risks of Significant Weakness

Our value for money procedures are based on the judgements reached from a combination of:

- our cumulative audit knowledge and experience
- our review of Council committee reports,
- meetings with the Strategic Director Corporate Resources & Transformation (S151), and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

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 risks of significant weaknesses during the course of our audit. As a result, we have no matters to report by exception in this report

# Executive Summary (continued)

## Reporting

Our commentary for 2022/23 is set out over pages 10 to 13. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see table below) throughout 2022/23.


Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Annual Auditors Report and have been updated for 2022/23.

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 weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness 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 weakness identified

Within our 2021/22 Audit Results Report, we included further findings and recommendations relating to the audit of the 2021/22 financial statements. We further highlight these within this report as set out in Appendix B.





# Executive Summary (continued)

## Independence

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

There are no relationships from 1st April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.





## 02 Value for Money Commentary

# Value for Money Commentary

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

No significant weakness identified

We identified no risks for the Council's financial sustainability arrangements in our VFM planning.

Within the 2022/23 Budget and Medium Term Financial Plan, the Council set a balanced budget for 2022/23. However, in future years through to 2025/26, the MTFP shows additional budget shortfalls totalling £1.895m. This is split as:

- £312k for 2023/24
- £535k for 2024/25
- £1.895m for 2025/26

The future gaps are expected to be mitigated through various options including commercial and residential property strategies, delivery and transformation programmes, additional income from local taxation and prudent use of budget equalisation reserves.

These options have therefore resulted in headroom to support capital expenditure of the following:

- £297k for the 2023/24 period
- £940k for the 2024/25 period
- £199k for the 2025/26 period

The 2023/24 Budget and Medium Term financial Plan has also set a balanced budget for 2023/24, however, there remains budgeted shortfalls totalling £1.324m through to 2026/27. This is split as:

- £699k for 2024/25
- £320k for 2025/26
- £1.324m for 2026/27

These shortfalls are forecast to be addressed in a similar manner to those identified in the 2022/23 medium term financial plan, and have resulted the following:

- A use of equalisation reserves of £116k for the 2024/25 period.
- Headroom to support capital of £846k for the 2025/26 period.
- Headroom to support capital of £176k for the 2026/27 period.

# Value for Money Commentary

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

No significant weakness identified

The Council has a budget equalization reserve which is available to offset any shortfall and balance the budget. This is contained within the Council's General Fund earmarked reserves of £18.652m at 31/03/2023 and therefore, is sufficient to cover any shortfall.

There are acknowledged uncertainties to the medium term forecast, for example those associated with its developing Waste Strategy, the Solent Freeport, and annual pay awards which is consistent with the Council's risk register.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

# Value for Money Commentary (continued)

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

No significant weakness identified

We identified no risks for the Council's governance arrangements in our VFM planning.

The Council has an effective strategic risk management framework and register in place to identify, mitigate and monitor the risks to the organisation in delivering strategic objectives. This includes both financial and non-financial risks.

This is supported by the Strategic Risk Management Policy and a Strategic Risk Register with updates to the risk register being discussed in Cabinet meetings.

There is also an internal audit function which provides an interim report and a year-end report. We have obtained the report from internal audit at year end which reported 4 limited assurance reviews relating to:

- Use of Agency Staff
- IT Asset Management
- Open Spaces - Safety Checks
- Engineering Works

The Council has processes in place to ensure that actions are appropriately identified and addressed.

In 2022/23, New Forest District Council achieved a Net General Fund Requirement of £20.107m compared to budget of £20.674m which is a favourable outturn position and constituted a £56k overspend at Service Portfolio level offset by additional interest earnings of £893k. The budgeted capital spend for the year was £17.174m however, additional capital spend was incurred, including on projects carried over from 2021/22, resulting in an actual capital spend of £21.641m.

The Housing Revenue Account set a budget of a net income position of £8.920m and achieved an outturn position of £7.762m. The Housing Revenue Account capital spend was £22.077m for 2022/23, compared to an initial budget of £24.900m.

The Council maintains the General Fund Reserve at £3m. There are also several earmarked reserves with a total balance of £27.1m (at 31/03/2023) to meet specific liabilities when they fall due (split between General Fund and Housing reserves).

This illustrates the robustness of the Council's budget setting and their ability to manage their budget effectively.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.



# Value for Money Commentary (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

No significant weakness identified

The Council has arrangements in place to improve economy, efficiency and effectiveness. These derive from the Corporate Plan, setting out the Council's Vision and Values, as well as priorities and key activities for each portfolio area. The Corporate Plan also includes an action plan and achievement measures section, which is annually updated.

To track performance and judge how well the Council are delivering their services, they measure their key activities and set performance targets using performance indicators. 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.

NFDC are also involved in various Partnership arrangements within the area. These include:

- The Partnership for South Hampshire
- The Solent Freeport
- Solent Local Enterprise Partnership (LEP)

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



# 10 Appendices



# Appendix A - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

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	<p>New Forest District Council has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&amp;E, which assists in showing whether and where there were financial pressures looking backwards.</p> <p>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.</p> <p>As of January 2023, there is one identified significant risk in relation to cyber security. There are also risks included on the risk register which relate to the financial resilience of the Council however these have not been red rated. These risks include areas such as inflation and cost of living pressures and the longer term impact of recovery from the Covid-19 pandemic. Pressures more specific to the Council have also been identified and include the pay award (and other increased salary costs), levelling up, the fair funding review and the impact of a Business Rates Reset. These are mitigated through regular financial monitoring and robust budgeting arrangements.</p> <p>Where possible, the budgets for 2022/23 and 2023/24, and the Medium Term Financial Plans for 2023/24 onwards have incorporated the pressures identified, including those relating to inflation and pay awards. The 2022/23 budget also includes a Council Tax increase of 2.7% (being £5) with the 2023/24 budget including an increase of 2.99%, as well as the ongoing analysis for savings measures which are required for the budget to be balanced in the medium to long term.</p> <p>There are other 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). As of March 2023, 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 as of 31 March 2023 was £118.3m of which £4.3m is due to be repaid in the coming year (consistent with the prior year).</p> <p>New Forest District Council has developed a small portfolio of investment properties and has established a housing company to generate a return on cash at greater levels than current bank rates. It purchased £12.8m of investment property assets during the year (of which £7.306m related to the acquisition of 2 properties during the year), increasing its portfolio to a total of £30.7m at the year-end.</p>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

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)	<p>The long-term assets of the Council, which reflect its more commercial activity were as follows at 31/03/2023:</p> <table border="1"> <thead> <tr> <th>Significant Account</th> <th>Balance</th> <th>Description of Asset</th> </tr> </thead> <tbody> <tr> <td>Investment Property</td> <td>£30.7m</td> <td>The Council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices, and retail.</td> </tr> <tr> <td>Long-Term Investment</td> <td>£14.6m</td> <td>Includes a £1.4m investment in wholly owned housing company and £13.2m in other investment funds.</td> </tr> <tr> <td>Short-Term Investment</td> <td>£3.0m</td> <td>All short-term investments held as bonds or short-term fixed interest deposits with either banks or other financial institutions, or other Local Authorities.</td> </tr> </tbody> </table>	Significant Account	Balance	Description of Asset	Investment Property	£30.7m	The Council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices, and retail.	Long-Term Investment	£14.6m	Includes a £1.4m investment in wholly owned housing company and £13.2m in other investment funds.	Short-Term Investment	£3.0m	All short-term investments held as bonds or short-term fixed interest deposits with either banks or other financial institutions, or other Local Authorities.
Significant Account	Balance	Description of Asset											
Investment Property	£30.7m	The Council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices, and retail.											
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Short-Term Investment	£3.0m	All short-term investments held as bonds or short-term fixed interest deposits with either banks or 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.

The Council sets out its investment strategy annually, which sets out the aims and objectives of the investment, namely helping to support the New Forest economy and community and making a profit that will be spent on local public services. There are approved limits (for 2022/23 set at £30m investment properties, £10m Housing Company) on spending which have been agreed as set out in the strategy. This Investment Strategy was updated in January 2023 to approve limits of £50m for investment properties, and a consistent limit of £10m for the Housing Company. The balance of investment properties of £30.7m at 31/03/2023 therefore remains within policy. All spending has been funded by internal borrowing.

For Interest Rates and Investments and Borrowing the Council has a Treasury Management Strategy. The 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.

The Treasury Management Strategy also shows that the Council has an authorised borrowing limit of £219.1m. The treasury performance is monitored through the year and the mid-year report showed actual borrowing of £122.5m which remained below the limit and below the operational boundary of £201.4m. The Treasury Management Outturn Report confirmed that the borrowing limit had been updated to £207.3m, and the operational boundary updated to £189.6m. The £118.5m of borrowing held at 31st March 2023 continued to remain below these limits.



# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The 2022/23 Narrative Report in the Annual Financial Report notes the following in relation to potential funding gaps:</p> <p><i>“The latest Medium Term Financial Plan, that accompanied the setting of the 2023/24 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 (to be borne from the Council’s emerging Transformation Framework), income growth through yield, the generation of new additional income through the Commercial and Residential Property Strategies and Council Tax increases.”</i></p> <p>The Council maintains the General Fund Reserve at £3m. There are also several earmarked reserves with a total balance of £27.1m (at 31/03/2023) to meet specific liabilities when they fall due.</p> <p>Within the 2022/23 Budget and Medium Term Financial Plan, the Council set a balanced budget for 2022/23. The budget sets out the differences compared to the previous year budget, with a £5 (2.7%) increase in Council Tax for a Band D property.</p> <p>In future years through to 2025/26, the MTFP shows additional budget shortfalls totalling £1.895m. This is split as:</p> <ul style="list-style-type: none"><li>• £312k for 2023/24</li><li>• £535k for 2024/25</li><li>• £1.895m for 2025/26</li></ul> <p>The future gaps are 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 into the Council,</li><li>• Council-wide focus on delivery and transformation to identify and deliver a programmed approach to assets, services, and ways of working,</li><li>• Council’s ability to maximise its revenues through local taxation; and</li><li>• prudent use of budget equalisation reserves.</li></ul> <p>Specifically relating to the forecast shortfalls, the MTFP has identified additional commercial and residential property investment income of £120k per annum from 2022/23 with a further £250k per annum from 2023/24 (generating a cumulative total of £860k over the MTFP period).</p>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	<p>A further £5 increase in Council Tax generates an additional £363k per annum from 2023/24, with a further £366k per annum from 2024/25 and £369k from 2025/26, generating a total of £2,190k over the MTFP period.</p> <p>Finally, a target efficiency / income yield programme, is forecast to close the budget gap by £126k, £376k and £626k in 2023/24, 2024/25 and 2025/26 respectively.</p> <p>These options have therefore resulted in headroom to support capital expenditure of the following:</p> <ul style="list-style-type: none"><li>• £297k for the 2023/24 period</li><li>• £940k for the 2024/25 period</li><li>• £199k for the 2025/26 period</li></ul> <p>There are acknowledged uncertainties to the medium term forecast, for example those associated with its developing Waste Strategy, the Solent Freeport, and annual pay awards which is consistent with the Council's risk register. 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 and into 2023/24.</p> <p>The 2023/24 Budget and Medium Term financial Plan has also set a balanced budget for 2023/24, including an increase of 2.99% for Council Tax for a Band D property.</p> <p>In future years through to 2026/27, the MTFP shows additional budget shortfalls totalling £1.324m. This is split as:</p> <ul style="list-style-type: none"><li>• £699k for 2024/25</li><li>• £320k for 2025/26</li><li>• £1.324m for 2026/27</li></ul> <p>These shortfalls are forecast to be addressed in a similar manner to those identified in the 2022/23 medium term financial plan, and have resulted the following:</p> <ul style="list-style-type: none"><li>• A use of equalisation reserves of £116k for the 2024/25 period.</li><li>• Headroom to support capital of £846k for the 2025/26 period.</li><li>• Headroom to support capital of £176k for the 2026/27 period.</li></ul>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	The Council has a budget equalization reserve which is available to offset any shortfall and balance the budget. This is contained within the Council's earmarked General Fund reserves of £18.652m at 31/03/2023 and therefore, is sufficient to cover any shortfall.
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 to enable the Council's resources to be spent on the areas where it they are needed most. As it is aligned to the budget and MTFP, it 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 the Council's Vision and Values, as well as priorities and key activities for each portfolio area.</p> <p>The Corporate Plan also includes 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>
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 which details how the MTFP and Budget are derived.</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>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
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.</p> <p>The Council has regular 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 have identified no issues to report concerning the arrangements in place to manage those risks.</p>



# Appendix A - Summary of arrangements

## Governance

We set out below the arrangements for the governance criteria covering the year 2022/23.

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	<p>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. This reflects the updates made to the Risk Management Policy in September 2022, to ensure that the identified risks are strategic in nature.</p> <p>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 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.</p> <p>We have reviewed the risk register as of March 2023, as presented to the 1<sup>st</sup> March 2023 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 inflation on the Council and its partners and community.</p> <p>In the prior year, due to effective mitigation, there were no strategic risks included in the red (high) residual risk rating. In March 2023, whilst there remains appropriate mitigations against all risks, there is one residual risk in that higher category. This has been commented on above.</p> <p>We note that in 2022/23, the Council has also updated its Risk Management Policy with the aim of providing further clarity to the approach of risk management at New Forest District Council.</p> <p>The Council has an established Anti-Fraud, Bribery and Corruption Policy and whistle-blowing arrangements that are accessible on its website as well as an established Code of Conduct of both Officers and Members.</p> <p>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.</p> <p>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 activity.</p>

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

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 (continued)	<p>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.</p> <p>The Head of Internal Audit opinion for 2022/23 was 'Reasonable' for governance, risk management and management control.</p>
How the body approaches and carries out its annual budget setting process	<p>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 Housing &amp; Committees and Resources &amp; Transformation Overview and Scrutiny Panels.</p> <p>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, the rise in inflation rate and cost of living impacts were incorporated in the 2022/23 budget to reflect the changes within the wider economy. The 2023/24 budget was then developed in the year, and the changes in comparison to the previous year were set out in the annual budget report.</p> <p>NFDC maintain a general balance at their minimum reserve level of £3m. In addition to the general fund balance, the Council also hold several earmarked reserves to cover unexpected liabilities/increases in costs.</p> <p>As of 31/03/2023 the Council's reserves position is as follows per the financial statements:</p> <ul style="list-style-type: none"><li>• General Fund: £3m</li><li>• Earmarked Reserves: £27.1m (including Capital programme reserve £9.8m)</li></ul> <p>Further reserves, held for specific or statutory purposes and not available to support the revenue budget include:</p> <ul style="list-style-type: none"><li>• £1m HRA reserve</li><li>• £6.2m capital receipts reserve</li><li>• £8.03m community infrastructure levy unapplied reserve</li><li>• £4.2m developer's contributions unapplied reserve</li></ul>

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

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	<p>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.</p> <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 Monitoring Report and 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 controls are in place. We have obtained the report from internal audit at year end which reported 4 limited assurance reviews relating to:</p> <ul style="list-style-type: none"><li>• Use of Agency Staff</li><li>• IT Asset Management</li><li>• Open Spaces - Safety Checks</li><li>• Engineering Works</li></ul> <p>The details provided by Internal Audit for those reviews given a Limited Assurance rating, provide assurance that in our judgement, does not indicate a significant weakness for our assessment of VFM arrangements.</p>

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
<p>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>	<p>The ratings for Internal Audit’s review of the Council’s financial systems and governance arrangements were as follows:</p> <ul style="list-style-type: none"> <li>• Main Accounting and Reconciliations = Substantial Assurance</li> <li>• HR - Pay Awards and Spinal Points Review = Substantial Assurance</li> <li>• Leisure Contract Management = Substantial Assurance</li> <li>• Leased Income = Reasonable Assurance</li> <li>• Accounts Receivable and Debts Management = Reasonable Assurance</li> <li>• Keyhaven Income = Reasonable Assurance</li> </ul>
	<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>
<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>	<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 2023.</p> <p>There is a monthly Cabinet meeting, to ensure leadership is regularly updated on NFDC’s position.</p> <p>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.</p> <p>The Audit Committee combines both audit functions, for example considering the work of both internal and external audit, and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members and assisting the Councillors and co-opted members to observe the Members’ Code of Conduct.</p>



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

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)	<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 several check points at which officers can 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 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>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.</p>

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

### 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)

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.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

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 annual performance report. 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, 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 RAG rating to clearly identify those items that are underperforming, or perhaps require closer monitoring.</p> <p>As we noted previously, the indicators are 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>The Council also has an appropriate governance structure in place to ensure performance expectations are met.</p>

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

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)	<p>Partnerships are included, as appropriate, within the Corporate Plan by portfolio. 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>NFDC are within the Partnership for South Hampshire, which is made up of 12 local authorities in the Solent area with the aim of collectively improving the environmental, cultural, and economic performance of the South Hampshire area. This partnership comes together approximately 5 times a year through a joint committee. The partnership focuses on areas not in the remit of the LEP, particularly on sustainable housing development and environmental sustainability.</p> <p>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 with the other seats being 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.</p> <p>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.</p> <p>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.</p>



# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

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>New Forest District Council purchases goods and services from a variety of suppliers. Details of procurements are documented at <a href="https://www.newforest.gov.uk/article/942/Supplying-the-council">https://www.newforest.gov.uk/article/942/Supplying-the-council</a>, which includes the Council's overall Procurement Strategy 2023 to help support the 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>The Council shares information on upcoming tenders as well as details of existing contracts at Southeast Business Portal (SEBP) which is used by over 35 other local authorities.</p> <p>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>All procurement processes and contract awards must comply with the Council's Contract Standing Orders (CSOs) set out in Chapter 4/10 of the Constitution which also sets out the limited circumstances and processes that need to be followed for those requirements to be waived.</p> <p>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>

# Appendix B – Financial Statement Recommendations from 2021/22

## Recommendations

Within our 2021/22 Audit Results Report, we included further findings and recommendations relating to the audit of the 2021/22 financial statements.

We further highlight these below alongside the response from management which includes any progress made.

All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial Statements Preparation	<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.</p> <p>During the 2022/23 accounts preparation, a proportion of these were removed or consolidated. However, there remain some notes which could be further consolidated or removed.</p> <p>This is also an area which management should continually review throughout their financial statement preparation process.</p>	Finance Officers have reviewed notes and disclosures and have consolidated and / or removed where minimal value is added.
Journal Entry Processing	<p>Further background to this recommendation has been included on page 31.</p> <p>We request the Council considers if their current method is the most efficient approach of Journal Entry posting. In 2021/22, there are over £300m of Income and Expenditure entries that are netted out to nil as part of the creation of the financial statements, a significant volume. Can these postings be grouped together, automated or eliminated?</p>	Finance Officers have reviewed internal recharging processes and have reduced the overall number of journal entries going forward.

# Appendix B – Financial Statement Recommendations from 2021/22

## Recommendations – Background

As part of undertaking our “Data First” approach to the 2021/22 financial statement audit, it was noted that New Forest District Council initiate the majority of their journal entry postings based on budgeted figures. The amounts are allocated out to multiple business units on a monthly basis through recharges. In order to then record the actual rather than budgeted figures in the financial statements, clearing transactions are posted at year end.

In addition to this, these postings (i.e. the posting of the budgeted amounts and the clearing journals at year-end) are often made through holding codes which are not mapped to the net cost of services. Instead, these codes are netted to nil at year-end, and recharged to the net cost of services.

This has been a method used by the Council for a number of years and while not suggestive of resulting in incorrect figures in the financial statements, the multiple recharge and budgetary postings lead to difficulties in identifying a clear audit trail. In particular, difficulties are experienced when testing a sample of Income and Expenditure transactions from the net cost of services as our population consists of:

- Journals posted to reflect the budgetary amount (often posted to holding codes)
- Journals posted to recharge these budgetary amounts across various business units (often being across holding codes)
- Journals posted to reflect the actual performance for the year, which can also include the recharging of this actual performance across various business units and holding codes
- Journals posted to clear the holding codes to nil at year-end and reflect actual performance in the net cost of services

It also can create difficulties in attempting to reconcile financial statement related general ledger codes to subledgers including Payroll and Accounts Receivable, as these subledgers are often recorded within the holding codes as opposed to the main net cost of services. This is a key procedure performed as part of our audit to confirm the completeness of listings.

In future years, we request that the Council perform these reconciliations between the financial statements GL codes to subledgers (rather than to holding codes) in advance of the audit to help provide those early assurances that the data is correct and complete.

We would also request the Council to consider if their current method is the most efficient approach of Journal Entry posting. In 2021/22, there are over £300m of Income and Expenditure entries that are netted out to nil as part of the creation of the financial statements, a significant volume. Can these postings be grouped together, automated or eliminated?

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