

AGENDA ITEM 11 REPORT PR25/26-19 APPENDIX 2

Capital Accounting

1. Introduction

- 1.1. The SDNPA operates a Medium-Term Financial Plan (MTFP) which outlines the fiscal strategy and expectations for a 5-year period. The Capital Programme represents anticipated capital financing requirements and expenditure over this MTFP period.
- 1.2. The Capital Programme requires specific approval by the Authority; in conjunction with the annual revenue budget, and it outlines the phasing of expenditure and the sources of funding.
- 1.3. The Authority's Capital Programme for 2025/26 will be largely funded by a capital grant from DEFRA of £2M. This is an increase on previous years and consists of £0.9M to replace lost revenue and £1.1M for additional capital, representing growth and potential opportunities for the Authority. The Capital Programme is forecasting that spend will meet the value of the grant.
- 1.4. This review is part of the agreed Internal Audit Plan for 2025/26 and has been delivered in compliance with the Global Internal Audit Standards and the Local Government Application Note.
- 1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section of the report.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - The Capital Plan is affordable and can be delivered, with the Authority able to meet its key objectives.
 - Effective monitoring arrangements are in place to ensure oversight, enabling timely interventions to prevent over-spend and support the achievement of Authority objectives.

3. Audit Opinion

- 3.1. **Reasonable assurance is provided in respect of Capital Accounting.** This opinion means most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

- 4.1. We have been able to provide an audit opinion of Reasonable Assurance based on the activities undertaken within the Capital Programme.
- 4.2. The Capital Programme has been running since 2020/21 and has well established lines of reporting and decision making. The Capital Programme reports into the Policy and Resources (P&R) Committee, and decisions arising are then presented for agreement at Full Authority meetings.
- 4.3. The Programme is adequately supported with appropriate documentation which evidences how it was created and that it aligns with the Corporate Plan and Authority priorities.
- 4.4. The revised Capital Strategy incorporates the use of the REFCUS (Revenue Expenditure Funded from Capital Under Statute) accounting principle. This principle allows certain types of revenue expenditure (spending that would ordinarily be classified as day-to-day operational costs) to be reclassified as capital expenditure, provided they meet specific criteria outlined by statute. When this reclassification takes place, the Accountants apply the appropriate coding to ensure the expenditure is recorded as capital transactions in the financial accounts.

- 4.5. Risks and other implications which may affect the delivery of the Capital Plan are regularly updated and reported to P&R Committee.
- 4.6. However, we have identified opportunities to enhance the controls already in place, as:
- 4.7. Project managers are unable to provide key project deliverable updates to Finance via their project management system. As a result, this information is not consistently reported to the P&R Committee and the committee lacks visibility on the relationship between budget expenditure and project delivery progress to allow for sufficient oversight.
- 4.8. There is no integrated system that enables real-time budget tracking for project managers, this is regularly provided by Finance, which limits the project manager’s ability to manage and monitor their budgets. However, we acknowledge that the possibility of providing project managers with access to the Civica accounting system is being explored to address this.
- 4.9. A recently approved change aimed at enabling agile project approval and delivery, to align with funding requirements, has not yet been formally documented, which could lead to the process being inconsistent and not applied as intended.

5. Action Summary

- 5.1. The table below summarises the actions that have been agreed together with the risk rating in the context of the area under review:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	0	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	2	1-2
Low	This represents good practice; implementation is not fundamental to internal control.	1	3
Total number of agreed actions		3	

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Impact of Savings Plans (previously named Organisational Resilience)

1. Introduction

- 1.1. Income into the South Downs National Park Authority is primarily received through a combination of revenue generating activities within the park and government funding.
- 1.2. The medium-term financial strategy presented to the National Park Authority in March 2025 estimated a net budget deficit of £510k, which will be offset with a contribution from reserves, for this financial year, in order to fund specific time-limited activities. In addition, a £97k savings target has been included in the budget for 2025/26, this is required to cover a cut in the Department for Environment, Food and Rural Affairs (DEFRA) revenue grant of £860k.
- 1.3. This review sought to provide assurance that savings proposals are subject to appropriate challenge and scrutiny and that robust monitoring arrangements are in place to support their implementation. We also evaluated whether the potential impact of planned savings is sufficiently understood to allow balanced decision-making that manages risks to the Authority's strategic objectives effectively.
- 1.4. This audit was originally called Organisational Resilience and was changed to reflect the Authority's current financial position. The audit forms part of the agreed Internal Audit Plan for 2025/26 and has been delivered in compliance with the Global Internal Audit Standards and the Local Government Application Note.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives.
 - Arrangements for the effective evaluation of savings targets for 2025/26, including the understanding of demand pressures, ensure that targets are realistic, achievable and are aligned to the Authority's priorities.
 - Effective monitoring arrangements are in place to ensure that planned savings are successfully delivered.
 - Resource needs are clearly defined and understood in order to deliver savings proposals and operate business as usual.

3. Executive Summary

- 3.1. The Authority is reviewing its financial position and being proactive in order to identify potential savings as part of the budget management and setting process. This is being considered to proactively plan for the Authority's financial future as the DEFRA grant funding available to the Authority is decreasing annually, although, the reserves are currently at a healthy level.
- 3.2. The Medium-Term Financial Strategy projections for the 2026/27 financial year show a budget deficit of £22k (as at November 2025) which incorporates a further possible cut to the core revenue grant from DEFRA of 2.5%, this is less than 1% of the revenue grant. The 2027/28 financial year is anticipating a budget deficit of £200k, about 1.5% of the grant.
- 3.3. Given the contextual information above on the Authority's financial position, there has not been the requirement to have detailed savings plans in place due to the level of reserves available and the total value of the deficit in relation to the budget.

- 3.4. Therefore, the Authority has not required a robust process to manage the impact of savings, and for this reason we have not provided an assurance opinion in this instance. Our findings are summarised below, and further detail can be found in the main body of this report. Regular budget monitoring takes place, with the accountant for the Authority meeting with budget holders to discuss budget pressures and issues. A budget monitoring spreadsheet is maintained which captures identified risks, pressures, forecast variances and opportunities within the budget against actual spend and commitments to date. There is space on this spreadsheet for commentary and updates from various stakeholders.
- 3.5. Governance is overseen by the Policy and Resources Committee, meeting quarterly and providing the opportunity to query and challenge the budget monitoring reports presented by the Interim Section 151 Officer.
- 3.6. When an officer leaves, the resource needs of the Authority are reviewed as part of the recruitment process, as job evaluations are undertaken to scrutinise vacant posts and responsibilities to feed into potential savings.
- 3.7. There is an identified savings target in the budget for the current financial year and there are robust controls in place over wider budget management and monitoring. However, there is no documented savings plan or framework in place, identifying how the proposed savings will be achieved. This would include an evaluation of the proposed activity, risks associated with this and ensuring that savings proposals are aligned with strategic priorities. In addition, there is no formal process in place to monitor savings and their impact. Without a structured approach, there is no mechanism to ensure that savings are being achieved as anticipated and do not adversely impact service delivery elsewhere within the Authority.

4. Action Summary

- 4.1. The table below summarises the actions that have been agreed together with the risk rating in the context of the area under review:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	0	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	1	1
Low	This represents good practice; implementation is not fundamental to internal control.	0	N/A
Total number of agreed actions		1	